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FOREIGN EXCHANGE
MONEY AND CURRENCY
CANADIAN BANKING

SCRANTON:
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90

Finance.
Foreign Ex.
Money
Banking Can.

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PREFACE

The International Library of Technology is the outgrowth of a large and increasing demand that has arisen for the Reference Libraries of the International Correspondence Schools on the part of those who are not students of the Schools. As the volumes composing this Library are all printed from the same plates used in printing the Reference Libraries above mentioned, a few words are necessary regarding the scope and purpose of the instruction imparted to the students of—and the class of students taught by—these Schools, in order to afford a clear understanding of their salient and unique features.

The only requirement for admission to any of the courses offered by the International Correspondence Schools, is that the applicant shall be able to read the English language and to write it sufficiently well to make his written answers to the questions asked him intelligible. Each course is complete in itself, and no textbooks are required other than those prepared by the Schools for the particular course selected. The students themselves are from every class, trade, and profession and from every country; they are, almost without exception, busily engaged in some vocation, and can spare but little time for study, and that usually outside of their regular working hours. The information desired is such as can be immediately applied in practice, so that the student may be enabled to exchange his present vocation for a more congenial one, or to rise to a higher level in the one he now pursues. Furthermore, he wishes to obtain a good working knowledge of the subjects treated in the shortest time and in the most direct manner possible.

In meeting these requirements, we have produced a set of books that in many respects, and particularly in the general plan followed, are absolutely unique. In the majority of subjects treated the knowledge of mathematics required is limited to the simplest principles of arithmetic and mensuration, and in no case is any greater knowledge of mathematics needed than the simplest elementary principles of algebra, geometry, and trigonometry, with a thorough, practical acquaintance with the use of the logarithmic table. To effect this result, derivations of rules and formulas are omitted, but thorough and complete instructions are given regarding how, when, and under what circumstances any particular rule, formula, or process should be applied; and whenever possible one or more examples, such as would be likely to arise in actual practice—together with their solutions—are given to illustrate and explain its application.

In preparing these textbooks, it has been our constant endeavor to view the matter from the student's standpoint, and to try and anticipate everything that would cause him trouble. The utmost pains have been taken to avoid and correct any and all ambiguous expressions—both those due to faulty rhetoric and those due to insufficiency of statement or explanation. As the best way to make a statement, explanation, or description clear is to give a picture or a diagram in connection with it, illustrations have been used almost without limit. The illustrations have in all cases been adapted to the requirements of the text, and projections and sections or outline, partially shaded, or full-shaded perspectives have been used, according to which will best produce the desired results. Half-tones have been used rather sparingly, except in those cases where the general effect is desired rather than the actual details.

It is obvious that books prepared along the lines mentioned must not only be clear and concise beyond anything heretofore attempted, but they must also possess unequaled value for reference purposes. They not only give the maximum of information in a minimum space, but this information is so ingeniously arranged and correlated, and the

indexes are so full and complete, that it can at once be made available to the reader. The numerous examples and explanatory remarks, together with the absence of long demonstrations and abstruse mathematical calculations, are of great assistance in helping one select the proper formula, method, or process and in teaching him how and when it should be used.

This volume contains the papers on foreign exchange, money and currency, and Canadian banking. The foreign exchange papers deal with the causes of foreign exchange transactions, the methods employed for remitting to foreign countries, foreign exchange rates, etc. The section on money and currency treats of the various theories of money and currency without advocating any particular one of them, and contains such principles of political economy as pertain directly to this subject. The papers on Canadian banking contain a full and complete discussion of the Canadian system as compared with the banking systems in vogue in other countries; they also deal with the administration and accounting of a Canadian bank, the books and forms used being fully explained and illustrated. Special writers, who through practical experience in banking and financial work were well equipped to prepare instruction on these subjects, were employed. The elimination in so far as was possible of technical terms and phrases will appeal both to the layman and to the student of finance.

The method of numbering the pages, cuts, articles, etc. is such that each subject or part, when the subject is divided into two or more parts, is complete in itself; hence, in order to make the index intelligible, it was necessary to give each subject or part a number. This number is placed at the top of each page, on the headline, opposite the page number; and to distinguish it from the page number it is preceded by the printer's section mark (§). Consequently, a reference such as § 16, page 26, will be readily found by looking along the inside edges of the headlines until § 16 is found, and then through § 16 until page 26 is found.

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FOREIGN EXCHANGE

(PART 1)

INTRODUCTION

Note.—Throughout this Course, where the word bank appears alone, it is used in its general sense, meaning a banking institution without distinction as to whether it is an incorporated (public) or a private bank. So, also, when the word banker appears alone, it is used in its general sense, meaning a person engaged in the banking business without distinction as to kind.

1. Definition.—The term **foreign exchange** covers the transfer of credits from one country to another by means of money, bills of exchange, and other orders for money. It is sometimes spoken of as *international exchange;* in Great Britain, it is called *the exchanges.* A general statement of the way in which the foreign-exchange business of a bank in America is conducted will make the definition clearer.

The bank arranges terms for the opening of accounts with one or more banks or banking houses in each of the principal financial centers of the most important foreign countries much as a bank in St. Louis, for example, would arrange terms for its domestic business with banks in New York, Philadelphia, Boston, Chicago, New Orleans, San Francisco, and elsewhere. The bank then remits to these correspondents, for its credit, the bills of exchange and other orders for money that it has discounted or purchased from American merchants, bankers, and others. These orders for money are drawn on foreign merchants, bankers, and others against exports of merchandise and other foreign obligations to this country. Securities and money in general may also be shipped to them for credit. The bank also issues its own

bills of exchange and other orders for money drawn on these foreign correspondents and sells them to other bankers and merchants to cover imports and other American obligations to foreign countries. Securities and money in general may also be received from foreign countries. Profits result from buying at one price and selling at a higher.

LEADING COMMERCIAL COUNTRIES

2. In international commerce and finance the five leading countries of the world are the United Kingdom (England, Scotland, Ireland), Germany, United States of America, the Netherlands, and France. The order of their importance, estimated from the commercial standpoint, sometimes varies. As shown by their respective imports and exports for the year 1904, it is as given in Table I.

TABLE I

Country	Imports	Exports	Total
United Kingdom .	$2,681,629,000	$1,463,410,000	$4,145,039,000
Germany	1,514,661,000	1,242,987,000	2,757,648,000
America	991,087,000	1,435,179,000	2,426,266,000
Netherlands . . .	965,648,000	797,115,000	1,762,763,000
France	868,946,000	859,035,000	1,727,981,000

The **financial centers** of these countries are London, Paris, Berlin, New York, and Amsterdam. The order of their importance from the financial standpoint (as distinguished from the commercial standpoint) cannot be positively stated. At present, probably, it is as follows: London, Paris, Berlin, New York, Amsterdam. From the standpoint of reserve capital, Paris is, without doubt, the most important, for the other centers are borrowers at Paris.

3. The United Kingdom.—Bills of exchange on London are better known, more frequently called for, and more generally available than those on any other center. This and the present leadership of the United Kingdom in the

commercial world are due, at least in part, to the following: (1) The early placing of her monetary system on a sound basis; this was done by Parliament in 1816, some time in advance of any other nation. (2) The early adoption of a banking system that, under the very conservative and safe direction of her bankers, has proved strong enough to weather the severest financial storms, and to command the confidence of governments, bankers, and merchants. (3) The fact that the British people are bankers, merchants, manufacturers, and ship owners; and that while their bankers have established branches in countries whose trade it was desirable to obtain, their merchants and manufacturers have sought and obtained that trade, and their ship owners have built sailing vessels and steamships to carry it. The British Government has frequently assisted and encouraged the shipping interests by the granting of subsidies.

4. France.—France has a comparatively small merchant marine, a large part of her commerce being carried in foreign ships. The French people, whose thrift is proverbial, have become noted for their fondness for investing in foreign securities. Their annual foreign investments are said to exceed $500,000,000. French banks have established foreign branches for the benefit of the financial interests of the country and for her commerce.

5. Germany.—Since the Franco-Prussian war, Germany has adopted a stable monetary system, and has been most energetic and successful in competing for foreign trade. She has also established numerous branch banks in foreign countries and has built up a large merchant marine. Hamburg is the third largest port in the world, London being first and New York second.

6. The Netherlands.—Although one of the smallest countries in Europe, the Netherlands carries on a most extensive trade, which is one of the principal sources of her wealth. Her banks have established branches in the Dutch Colonies for the benefit of colonial trade and intercourse. Her trade, however, is carried largely in British ships.

7. America.—The steady growth in the foreign commerce of America is due largely to the character and extent of her natural resources, to the energy and activity of her merchants and manufacturers, to the assistance (at first) of private banking houses only and (later) of some progressive public banks, and to the gradual improvement of her consular service. But it has been hindered by the great delay in placing the monetary system of the country permanently on the gold basis, which was not done in a way to command universal confidence, until March, 1900.

The national banks have been and still are unable to assist as fully as they otherwise might in the development of foreign trade, because they are unable to establish agencies and branches in foreign countries. Comparatively little is known of international banking by more than a very few American bankers. American merchants and manufacturers have been slow to adapt themselves to foreign requirements. Only a small part of her foreign commerce is carried in American ships.

These facts are becoming better understood and their bearing on the future of the commercial and financial interests of the country are now more fully appreciated than formerly. As a result, the importance of the international bank to the growth and development of a country has become evident, and the demand for more and better banking facilities has increased. In consequence, the number of public banks that have established foreign-exchange departments has increased rapidly. The charters under which most of them are operated, however, place such restrictions on them that their foreign-exchange transactions are limited to certain lines. Seeing the need for congressional authorization, in the case of national banks, to overcome these restrictions, the Comptroller of the Currency, in his report for 1904, after reviewing the situation, makes the following recommendation: "That national banks having a capital of $1,000,000 or more and located in the reserve cities or central-reserve cities be specifically authorized to buy and sell foreign exchange; to accept bills drawn on

themselves, payable at a time not to exceed 4 months after sight, and to issue letters of credit; and also to open and maintain such offices, agencies, or branches as may be necessary to conduct this business in foreign countries and in Porto Rico, the Philippine Islands, the Hawaiian Islands, and the Panama Canal Zone."

The subject of foreign exchange will be treated under the following general heads: (1) Factors That Occasion Foreign-Exchange Transactions, (2) Monetary Systems, (3) Rates of Exchange, (4) Bills of Exchange, (5) Letters of Credit, (6) Finance Bills, (7) Contracts, (8) Arbitrage, and (9) Gold Movements.

FACTORS THAT OCCASION FOREIGN-EXCHANGE TRANSACTIONS

8. Exports and Imports.—When a country produces raw materials and manufactures that are marketable in other countries, it is usually able to dispose of them in those countries. As a result there are exports from producing countries into non-producing or insufficiently producing countries. The exports of the one are the imports of the other. Payment for these transactions must be made by the importer to the exporter.

9. Loans and Investments.—When money rates are lower in one country than in another, banks borrow where money is low and lend where it is high. When foreign enterprises and government and other securities offer attractions superior to the attractions afforded by similar domestic investments, that is, when the interest return is higher abroad than at home, the investing people of a country frequently place part of their surplus funds in other countries. As a result, capital is constantly passing back and forth from one country to another: as loans are made and repaid; as securities are bought, sold, and mature; as investments are made in mines, manufacturing establishments, railroads, and other enterprises; as the income from those

investments is paid, or as the investors close out their interests in them.

10. Travel.—As the foreign commerce and foreign investments of a country increase, travel for business purposes increases; and as the education of the people of a country advances, travel for pleasure and study also increases. As wealth becomes more widely distributed, it not only enables more people to travel, but leads them to require that traveling be made comfortable and luxurious. This results in the expenditure of large sums of money by the people of one country in other countries, for trade, pleasure, study, and research.

11. Migration.—As the older countries of the world become overcrowded, many of their people seek employment in newer and less densely populated countries, and the emigrant of one country becomes the immigrant of another. These people carry money with them to their new homes, and after obtaining employment they frequently remit part of their earnings to the countries from which they came.

12. Shipping.—The transportation of merchandise, passengers, and the mails between countries separated by water requires extensive shipping facilities. Some countries, appreciating the great advantage of owning ships, have built an extensive merchant marine. Large sums are paid for ocean freight and transportation, much of which passes from one country to another, the amount depending on the tonnage of the merchant marine of each country.

13. Insurance.—The agencies of foreign fire, life, marine, and other insurance companies that have been established in a country, and the foreign agencies of the companies of that country, handle large sums in premiums, commissions, losses, etc. These involve remittances from one country to another.

14. Miscellaneous.—There are numerous public and private interests, besides those named, that constantly require transfers of funds from one country to another.

Among them may be mentioned educational, missionary, philanthropic, and similar undertakings. In the aggregate the amount of these miscellaneous items is frequently quite large.

15. Government.—To protect the interests involved in the development and maintenance of the foregoing factors, an extensive diplomatic and consular service and a considerable navy are required. Their cost to the government is proportionate to their importance to the country. In addition to such regular expenditures of the government, there are also occasional payments of large sums, such as, in the case of America, the Spanish indemnity and the Panama Canal purchase, and, in the case of France, the indemnity paid to Prussia at the close of the Franco-Prussian war.

16. Impossibility of Adjusting Balances by Offsetting One Transaction Against Another.—A casual examination of the numerous reports of foreign trade, published by the Bureau of Statistics of the Department of Commerce and Labor, will show that the total annual exports of each year do not offset or balance the total annual imports of that year. Further examination will show that the totals for any given month or quarter do not offset each other; and that while those of one or more cities or sections of the country may practically do so, the exports have not gone to the same points from which the imports have been received. An examination of whatever figures* may be found relating to this matter will show similar results; that is, that the foreign loans and investments in America do not offset the American loans and investments abroad, and the amounts brought by foreign travelers and immigrants into America do not balance the amounts spent by Americans abroad and sent by immigrants to their former homes, etc.

* Such figures are published from time to time by financial, trade, and other journals. They are, however, only the estimates of statisticians, who have made careful study of the subject, and should be regarded from that standpoint.

These facts show clearly that, except as foreign-exchange transactions are brought together through international banks and handled by them much as the inland business of a country is handled by domestic banks, settlements of international balances would be impossible. They also show that in every country there will be a continual supply of bills or orders for money of different amounts to settle foreign debts to that country; and that there will be a like continual demand for bills to pay for what that country owes. Consequently, banks find it profitable to buy from those who wish to collect money, and to sell to those who wish to pay money.

MONETARY SYSTEMS OF THE WORLD

17. The **monetary system** of a country is the system of money or exchange that it has adopted by law. It is based on a monetary unit, and consists of pieces of metal—gold, silver, nickel, bronze, copper—of different denominations and value, called **metallic currency**, and of notes issued by the government, or by banks under the authority of the government, called **paper currency**.

Every country establishes and regulates its currency or monetary system with the purpose of meeting the necessities of its trade, its industries, and its national finances. The differences between the systems tend to make the practice of foreign exchange appear more difficult than it really is.

18. **Money** is a standard measure of value, a medium of payment or exchange, established by law or by agreement. The value of labor and service, and of everything else that may be bought and sold, is estimated in money. By law, or by agreement, money is accepted in payment of every kind of debt or obligation. As commonly used, the word money is applied both to standard coin and to what is called *representative money* (paper and subsidiary coin) without reference to its debt-paying power.

Legal tender is money that must, by law, be accepted in payment of debt.

19. Notes—paper money—are promises to pay money. Their value in trade depends on the ability and good faith of the issuing governments or banks to pay them. Bank notes are issued either on the *currency principle*, or on the *banking principle*. They are said to be issued on the currency principle when they are secured by a reserve of coin, bullion, or other securities. Bank-of-England notes and American national bank notes are of this kind. Notes are said to be issued on the banking principle when they are secured by the assets of the banks, as are the notes of the Bank of France, the Imperial Bank of Germany, the Canadian banks, etc.

Convertible notes are those that are, by law, exchangeable for coin, on demand. *Inconvertible notes* are those that are not, by law, exchangeable for coin, on demand. The latter are issued in very few countries, because since they are not exchangeable for coin they do not pass in trade on a par with coin, and therefore become what is called a *depreciated currency*, tending to discredit, financially, the country that issues them.

In the reports of the Director of the Mint and the Comptroller of the Currency the term "uncovered paper" refers to that part of the note issue not secured by a reserve of coin.

20. The monetary unit of a country is its standard unit of value, established by law: as the gold dollar of the United States of America, the pound sterling of the United Kingdom, the gold franc of France, the gold mark of Germany. Some of these units are not now actually coined because they are too small for practical commercial use. Thus, while the pound sterling or sovereign is coined, the smallest American gold piece is the quarter eagle, $2.50; the smallest French gold piece is 5 francs;* and the smallest German gold piece is the crown, 10 marks. In America, the Gold Standard Act, officially designated as the Currency Act, approved March 14, 1900, declares "That the dollar, consisting of 25.8 grains of gold $\frac{9}{10}$ fine, as established by section 3511 of

*The coinage of the 5-franc gold piece was provisionally suspended in 1885. See Latin Union.

the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity."

The **monetary standard** of a country is that which, by law, has been made its standard measure of value, and a country is known as a *gold-standard* or as a *silver-standard* country according to whether gold or silver has been made its monetary standard. The *double standard* exists in a country when both gold and silver have been made, by law, its monetary standards at a fixed ratio. For example, if a country made gold and silver its standards and made 15 or 15½ ounces of pure silver legally equivalent to 1 ounce of pure gold, it would be called a double-standard country with a fixed ratio of 15 or 15½ to 1.

21. Gold the Universal Standard.—Gold is the only actual money known in international financial transactions, since owing to its greater stability of value, its greater convenience in handling, and its greater durability, it has practically become the universal monetary standard. This has been accomplished by giving a fixed value in each country to a given weight of gold, as will be more fully explained further on.

22. Double Standard.—Difficulties and inconvenience have attended every attempt to use the **double standard,** except under restrictions that practically make the more valuable metal, gold, the actual standard. One reason for this is the fact that gold and silver are commodities, the supply of and the demand for which differ. The relative values of the two metals therefore fluctuate independently; so that, practically, since gold has come to have a fixed value, it is the value of silver that fluctuates. Another reason is the fact that when two kinds of money of different values are equally current, the less valuable drives the more valuable out of circulation, because dealers and individuals hoard the latter, use it in the arts, or export it, and pass the former into circulation. This is known as *Gresham's law*, which was

explained by Sir Thomas Gresham to Queen Elizabeth about the year 1559. It has become necessary, therefore, to maintain the two metals, arbitrarily, at a fixed ratio to each other, in order that, for example, a franc gold and a franc silver may have equal purchasing and equal debt-paying powers. This is accomplished: (1) by limiting the coinage of silver, that is, by closing the mints to the public for its coinage, so that it is coined only by the government to meet the needs of trade; (2) by limiting the use of silver as legal tender in trade to a certain amount while making it unlimited legal tender in payment to the government; (3) by opening the mints to the free and unlimited coinage of gold. The term *free coinage*, as applied to gold and silver, means the coining of all gold or silver bullion brought by the public to the mint.

23. Latin Union.—The principal illustration today of the practical working of the double standard is furnished by the **Latin Union**, composed of Belgium, France, Greece, Italy, and Switzerland. This union was first formed in 1865 without Greece, which joined it in 1867. November 6, 1885, a new convention, or agreement, was concluded between France, Greece, Italy, and Switzerland, and to this Belgium was admitted December 12, of the same year. This convention contains the following fifteen articles in addition to arrangements relating to the liquidation article and to special conditions peculiar to each member of the union.

Article 1 states the object—uniformity in all that relates to the fineness, weight, diameter, and circulation of their gold and silver coins.

Article 2 names the denominations of the gold coins, their fineness, weight, diameter, and the allowance to be made for deviations from legal weight.

Article 3 describes the silver 5-franc pieces, their fineness, weight, allowance, and diameter; makes those issued by each member of the union full legal tender for all payments to the public treasuries of all the members; binds each to take back from the public treasuries of the others those that have been reduced by actual wear 1 per cent. below the legal allowance,

provided the impressions on them have not been effaced, and includes the agreement between the French government and the Bank of France with respect to them.

Article 4 names the divisional silver pieces, fixes their fineness, weight, allowance, diameter; binds each member to remelt all pieces reduced by wear 5 per cent. below the allowances.

Article 5 makes the divisional silver pieces unlimited legal tender in payments to the public treasury of the state that issues them, but limits payments to individuals to 50 francs.

Article 6 makes the divisional silver pieces of each state legal tender up to 100 francs in payments to the public treasuries of the other member states.

Article 7 binds each member to take back the divisional coins from individuals or from the public treasuries of the other states, and to exchange them for current coin—gold or silver—in sums not less than 100 francs.

Article 8 makes the coinage of gold pieces free to each state, except that of the 5-franc gold pieces, provisionally suspended. It suspends, under certain conditions, the coinage of 5-franc silver pieces, making resumption of coinage subject to the unanimous consent of all the members, and states that a member may resume their free coinage on condition of exchanging for gold on demand those of its own issue circulating in the other states during the duration of the agreement.

Article 9 restricts the total coinage of divisional silver pieces to an average of 6 francs per inhabitant, not including the replacing of old coins by remelting, etc.

Article 10 requires that the year of coinage be stamped on all the gold and silver coins of each state.

Article 11 centralizes all administrative and statistical work connected with the coinage in the French government.

Article 12 regulates the admission of other states to the Union.

Article 13 limits the term of the convention to January 1, 1901, and provides for its continuance thereafter.

Article 14 provides for liquidation, that is, for the final disposition of those 5-franc silver pieces of each state that

may be found in the other states on the termination of the convention's agreement.

Article 15 limits the time for the ratification of the convention by the several governments party to it.

24. From the foregoing, it will be seen that, though nominally double-standard countries, the members of the Latin Union are practically gold-standard countries. Gold coins are the only ones that are freely coined and that are unlimited legal tender; and while all silver coins are redeemable in gold or other current coin in the countries other than those of issue, they are coined only by the government under certain restrictions.

China is today the only country of importance where silver is the standard. For, with gold practically the standard of the principal commercial countries of the world and the only money known in international transactions, the advantage and necessity of placing themselves on the same footing with other countries has forced one after the other of the silver-standard countries to adopt the gold standard. A summary of monetary events since 1786, taken from the report of the Director of the United States Mint, found at the end of this Section, illustrates this fact and shows the variety and number of changes that have led to the adoption of the gold standard.

25. Gold and Silver Coinage.—The coining or stamping of gold, silver, etc. into money is considered the exclusive right of the government of a country. The place where it is done is called the **mint.** There are, however, private mints in which coins are manufactured for small countries or those having no government mints. But the governments of those small countries furnish the dies and frequently the metal as well, and the mints make a charge for the manufacture only. Government mints also frequently manufacture coins for small countries on terms similar to those of private mints.

26. In America, the government receives at its mints and assay offices all gold that is brought to it; and assays,

refines, and makes it into coins or bars. Practically, the government buys the gold, for, when bars of well-known smelters or assayers are presented, it pays therefor immediately 90 per cent. of their value by weight and fineness, and the balance after they have been melted and assayed. In England, the gold first passes through the Bank of England, which is required by law to accept all gold brought to it, and to pay therefor a certain fixed sum, namely, £3 17s. 9d. per ounce of *standard gold* (British standard $\frac{11}{12}$ fine). Thus, the mint really receives its gold only from one source. The sum paid by the Bank of England is $1\frac{1}{2}$ pence per ounce below the price that it receives from the mint, and the difference is intended to cover the interest for the time taken for the process of melting and refining. In France, Germany, and other countries, a small coinage charge is made per kilogram of gold. In gold-standard countries, silver is bought and coined by the government as required or as authorized by law, but when sold to the public it must be paid for in gold.

Gold and silver in bars or ingots are called **bullion,** as is also old or uncurrent or foreign coin, when taken by weight as raw material for recoinage.

27. Seigniorage.—The profit between the bullion value of a metal and its trade value is called **seigniorage,** and accrues to the government. The government of British India applied a large part of its profits in seigniorage to the establishment and increase of its gold reserve.

28. Refining.—Gold as it comes from the smelters contains impurities that make it unfit for coinage or for commercial use. The proportion of these impurities is determined by tests made by melting the smelter's bar, thoroughly stirring the mass, and then letting it cool in the form of a brick. Small pieces cut from the corners of the brick farthest from each other are then given to the assayers, who make their tests separately. These tests must agree within a very small fraction; if they do not agree at first, the whole process is repeated until they do. The gold is then **refined,** that is, the impurities are chemically removed.

29. Alloying.—Pure gold and silver are too soft for practical use as money, and therefore another metal or combination of metals (as copper, or copper and silver), called an **alloy,** is mixed with them to make them harder. The proportion of pure metal to alloy is fixed by law, and is called its *fineness*. It is usually expressed in decimals, as .900 fine, but also in fractions as $\frac{9}{10}$ fine, meaning 9 pounds of fine gold to 1 of alloy. In America, the standard fineness for gold and silver is $\frac{9}{10}$. In England, gold coins are $.916\frac{2}{3}$ or $\frac{11}{12}$ fine, and silver .925 or $\frac{37}{40}$ fine.

30. Legal Tolerance or Remedy.—In the process of alloying and of coining, it is so difficult to obtain the exact fineness and weight required, that a certain deviation above or below is allowed by law, and is known as **legal tolerance.** In America, for gold, this tolerance is .001 in fineness and $\frac{1}{4}$ grain in weight per dollar; for silver, it is .003 in fineness and $1\frac{1}{2}$ grains in weight for each one dollar piece. Thus, every country determines by law the weight, fineness, and legal tolerance of its coins, also their diameter and thickness, and the emblems or devices that are to be stamped on them.

31. Standard and Export Bars.—In America, gold is made by the mints either into *mint* or *standard bars* $\frac{9}{10}$ fine, for use in making coins; or into what are called *commercial* (or *jewelers'* or *export*) *bars* .990 to .997 fine. The official stamp of every government mint on a bar of gold or silver certifies its fineness, just as the impressions on the different coins certify their fineness, weight, and value. These bars are bought and sold by weight, and the commercial or export bars are largely used in making international settlements. They are generally preferred to coin for this purpose, because they are compact and therefore more easily handled and less expensive for shipment, less liable to loss by abrasion, and commercially available throughout the world. They are bought from the assay offices of the mint by bankers for export, the mint charging the buyer 4 cents per $100 for all commercial or export bars. This charge is so near the actual loss by abrasion and the extra expense of

handling, etc. that result from the shipment of gold in coin, that bankers are ready to pay it in exporting. In importing, they are glad to get coins, because coins are bought by fine weight and circulate by face value. The maximum reduction in weight from abrasion as allowed by law is $\frac{1}{2}$ per cent. after being in circulation for 20 years.

In America, the Director of the Mint is required to estimate every quarter, beginning with January 1 of each year, the value of the standard coins of the various nations of the world in circulation; these values are then proclaimed by the Secretary of the Treasury.

32. Values of Subsidiary Coins.—Subsidiary coins, silver, nickel, and copper, have two values; one is their face value, which is their current or circulating value in the country of issue, and is fixed by the government and stamped on the face of each coin; the other is their actual value, that is, their bullion or market value. For example, the silver dollar weighs $412\frac{1}{2}$ grains standard silver $\frac{9}{10}$ fine, and therefore contains $371\frac{1}{4}$ grains fine silver. It has been made legal tender in America for any amount, except where otherwise expressly stipulated in the contract, and is therefore worth its face value in trade in America; but in foreign countries it is worth only the market value of $371\frac{1}{4}$ grains of pure silver.

There are 480 grains in a troy ounce. To find the market value of a silver coin, if the weight is given in grains or ounces, reduce the fine weight to a decimal of an ounce and multiply by the price per ounce.

EXAMPLE.—What is the market value of $1 silver, the New York price being $.60 per ounce fine?

SOLUTION.— $1 silver = $412\frac{1}{2}$ grains standard $\frac{9}{10}$ fine; $412\frac{1}{2} \times .9 = 371\frac{1}{4}$ fine.

$$(371\tfrac{1}{4} \div 480) \times .60 = \$.464. \quad \text{Ans.}$$

London is the principal silver-bullion market of the world, and the London quotations are wired daily to all the principal money markets. London quotations are made in pence per ounce, for bars of the British government standard .925 fine. New York quotations are in cents per ounce of fine silver.

TABLE II

MONTHLY PRICES OF SILVER BULLION AND VALUES OF A FINE OUNCE DURING FISCAL YEAR 1906

(*From Report of the Director of the Mint*)

Month	Highest Pence	Lowest Pence	Average Price per Ounce, British Standard (.925) Pence	Equivalent Value of a Fine Ounce With Exchange at Par ($4.8665)	Average Monthly Price at New York of Exchange on London	Equivalent Value of a Fine Ounce Based on Average Monthly Price and Average Rate of Exchange	Average Monthly New York Price of Fine Bar Silver
1905							
July	$27\frac{5}{16}$	$26\frac{7}{8}$	27.1634	$.59545	$4.8678	$.59561	$.59548
August	$28\frac{3}{4}$	$27\frac{1}{4}$	27.8009	.60942	4.8663	.61020	.60935
September. . .	$28\frac{3}{4}$	$28\frac{1}{16}$	28.5240	.62527	4.8552	.62402	.62355
October	$28\frac{15}{16}$	$28\frac{5}{16}$	28.6370	.62775	4.8619	.62717	.62625
November. . .	$30\frac{5}{16}$	$28\frac{15}{16}$	29.4600	.64579	4.8638	.64550	.64445
December . . .	$30\frac{5}{16}$	$29\frac{3}{8}$	29.9825	.65725	4.8588	.65620	.65520
1906							
January	$30\frac{1}{4}$	$29\frac{11}{16}$	30.1111	.66007	4.8672	.66016	.65935
February . . .	$30\frac{13}{16}$	$30\frac{1}{8}$	30.4635	.66779	4.8682	.66821	.66724
March	$30\frac{7}{16}$	29	29.8564	.65449	4.8560	.65449	.65199
April	$30\frac{9}{16}$	$29\frac{5}{8}$	29.9750	.65708	4.8474	.65450	.65360
May	$31\frac{3}{8}$	$30\frac{9}{16}$	30.9676	.67884	4.8512	.67670	.67601
June	$31\frac{1}{8}$	$29\frac{13}{16}$	30.2163	.66237	4.8551	.66081	.65836
Average . . .			29.4298	.64513	4.8599	.64446	.64340

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TABLE III

ANNUAL PRICE OF SILVER IN LONDON, PER OUNCE, AND COMMERCIAL RATIO OF SILVER TO GOLD: 1870 TO 1905

(From Report of Director of Mint on Production of Precious Metals in United States)

Calendar Year	Lowest Quotation Pence	Highest Quotation Pence	Average Quotation Pence	Value of a Fine Ounce at Average Quotation Dollars	Commercial Ratio
1870	$60\frac{1}{4}$	$60\frac{3}{4}$	$60\frac{9}{16}$	1.328	15.57
1871	$60\frac{3}{16}$	61	$60\frac{1}{2}$	1.326	15.57
1872	$59\frac{1}{4}$	$61\frac{1}{8}$	$60\frac{5}{16}$	1.322	15.63
1873	$57\frac{7}{8}$	$59\frac{15}{16}$	$59\frac{3}{16}$	1.29769	15.93
1874	$57\frac{1}{4}$	$59\frac{1}{2}$	$58\frac{5}{16}$	1.27883	16.16
1875	$55\frac{1}{2}$	$57\frac{5}{8}$	$56\frac{11}{16}$	1.24233	16.64
1876	$46\frac{3}{4}$	$58\frac{1}{2}$	$53\frac{1}{8}$	1.16414	17.75
1877	$53\frac{1}{4}$	$58\frac{1}{4}$	$54\frac{13}{16}$	1.20189	17.20
1878	$49\frac{1}{2}$	$55\frac{1}{4}$	$52\frac{5}{8}$	1.15358	17.92
1879	$48\frac{7}{8}$	$53\frac{3}{4}$	$51\frac{1}{4}$	1.12392	18.39
1880	$51\frac{1}{2}$	$52\frac{13}{16}$	$52\frac{1}{4}$	1.14507	18.05
1881	$50\frac{7}{8}$	$52\frac{7}{8}$	$51\frac{5}{8}$	1.13229	18.25
1882	50	$52\frac{3}{8}$	$51\frac{13}{16}$	1.13562	18.20
1883	$50\frac{1}{16}$	$51\frac{3}{16}$	$50\frac{9}{16}$	1.10874	18.64
1884	$49\frac{1}{2}$	$51\frac{3}{8}$	$50\frac{11}{16}$	1.11068	18.61
1885	$46\frac{7}{8}$	50	$48\frac{9}{16}$	1.06510	19.41
1886	42	47	$45\frac{3}{8}$	.99467	20.78
1887	$43\frac{1}{4}$	$47\frac{1}{8}$	$44\frac{11}{16}$	.97946	21.10
1888	$41\frac{5}{8}$	$44\frac{9}{16}$	$42\frac{7}{8}$	.93974	22.00
1889	$41\frac{15}{16}$	$44\frac{3}{8}$	$42\frac{11}{16}$	.93511	22.10
1890	$43\frac{5}{8}$	$54\frac{5}{8}$	$47\frac{3}{4}$	1.04634	19.75
1891	$43\frac{1}{2}$	$48\frac{3}{4}$	$45\frac{1}{16}$	.98800	20.92
1892	$37\frac{7}{8}$	$43\frac{3}{4}$	$39\frac{3}{4}$	.87145	23.72
1893	$30\frac{1}{2}$	$38\frac{3}{4}$	$35\frac{9}{16}$	.78030	26.49
1894	27	$31\frac{3}{4}$	$28\frac{15}{16}$	.63479	32.56
1895	$27\frac{3}{16}$	$31\frac{3}{8}$	$29\frac{13}{16}$	.65406	31.60
1896	$29\frac{3}{4}$	$31\frac{15}{16}$	$30\frac{13}{16}$	.67565	30.59
1897	$23\frac{5}{8}$	$29\frac{13}{16}$	$27\frac{9}{16}$	.60483	34.20
1898	25	$28\frac{3}{8}$	$26\frac{15}{16}$	.59010	35.03
1899	$26\frac{5}{8}$	29	$27\frac{7}{16}$	.60154	34.36
1900	27	$30\frac{1}{4}$	$28\frac{5}{16}$	.62007	33.33
1901	$24\frac{15}{16}$	$29\frac{9}{16}$	$27\frac{3}{16}$	.59595	34.68
1902	$21\frac{11}{16}$	$26\frac{1}{16}$	$24\frac{1}{16}$	.52795	39.15
1903	$21\frac{11}{16}$	$28\frac{1}{2}$	$24\frac{3}{4}$	.54257	38.10
1904	$24\frac{7}{16}$	$28\frac{9}{16}$	$26\frac{13}{32}$	.57876	35.70
1905	$25\frac{7}{16}$	$30\frac{5}{16}$	$27\frac{27}{32}$	.61027	33.87

TABLE IV

BULLION VALUE OF 371¼ GRAINS OF PURE SILVER AT THE ANNUAL AVERAGE PRICE OF SILVER EACH YEAR: 1850 TO 1905

(Prepared by the Director of the Mint)

Calendar Year	Bullion Value Dollars	Calendar Year	Bullion Value Dollars	Calendar Year	Bullion Value Dollars
1850	1.018	1869	1.024	1888	.72683
1851	1.034	1870	1.027	1889	.72325
1852	1.025	1871	1.025	1890	.80927
1853	1.042	1872	1.022	1891	.76416
1854	1.042	1873	1.00368	1892	.67401
1855	1.039	1874	.98909	1893	.60351
1856	1.039	1875	.96086	1894	.49097
1857	1.046	1876	.90039	1895	.50587
1858	1.039	1877	.92958	1896	.52257
1859	1.052	1878	.89222	1897	.46745
1860	1.045	1879	.86928	1898	.45640
1861	1.031	1880	.88564	1899	.46525
1862	1.041	1881	.87575	1900	.47958
1863	1.040	1882	.87833	1901	.46093
1864	1.040	1883	.85754	1902	.40835
1865	1.035	1884	.85904	1903	.41960
1866	1.036	1885	.82379	1904	.44763
1867	1.027	1886	.76931	1905	.47200
1868	1.025	1887	.75755		

MINT PARS OF EXCHANGE

33. The **mint par of exchange** is the value or equivalent of the pure metal contained in the monetary unit of one country expressed in terms of the monetary unit of another country. For example, the equivalent of 1 pound sterling (English) in America is $4.8665635, and that of $1 in Great Britain is $49\frac{5}{16}$ pence. A fixed par of exchange can exist only between countries that use the same standard, as do

the gold-standard countries. There can be no fixed par of exchange between countries that use different standards; for example, a silver-standard country and a gold-standard country.

In America and Great Britain, the troy system of weights is used for weighing gold and silver, and whether the ounce or the grain is taken as the unit, fractions are generally expressed decimally. In continental Europe, the metric system is chiefly used.

The American government standard is used in all calculations in this Course.

Table V shows the relative values of the two systems.

TABLE V

According to the American Government Standard					According to Tate's Modern Cambist English
Grains (gr.)	Penny-weights (pwt.)	Ounces (oz.)	Pound (lb.)	Grams (g.)	Grams (g.)
1				.064798919	.064798949
24	1			1.555174056	1.555174776
480	20	1		31.103348112	31.10349552
5,760	240	12	1	373.24177344	373.2419463

1 pound avoirdupois = 7,000 grains
1 pound troy = 5,760 grains
{A grain is the same weight in both systems.}

1 kilogram = 1,000 grams = {2.20462234 pounds avoirdupois; 2.67922854 pounds troy; 32.15074248 ounces troy; 15,432.35639 grains}

1 gram = 15.43235639 grains

The mint pars of exchange may be found: (1) by a comparison of the weights; (2) by a comparison of the values of those weights (explained under Gold Shipments).

34. Comparison of Weights.—To find the mint pars of exchange of the units of two countries using the same weights, divide the weight of fine gold contained in the monetary unit of one country by that contained in the monetary unit of the other.

EXAMPLE 1.—Express the British pound sterling in terms of the American dollar.

SOLUTION.— £1 sterling contains 113.001605 gr. of fine gold; $1 contains 23.22 gr. of fine gold.

113.001605 gr. ÷ 23.22 gr. = $4.8665635. Ans.

EXAMPLE 2.—Express the American dollar in terms of the British pound sterling, expressing it in pence.

SOLUTION.— £1 sterling = 20s. = 240d.; 23.22 gr. ÷ 113.001605 gr. = .2054838.

.2054838 × 240d. = 49.31616d. = $49\frac{5}{16}$d. Ans.

35. To find the mint pars of exchange of the units of two countries using different systems of weights, as America and France, Great Britain and Germany, reduce the weight of the one to the same terms as that of the other, and proceed as before.

EXAMPLE 1.—Express the American dollar in terms of the French franc.

SOLUTION.— fr. 1 contains .290322581 g. of fine gold; $1 contains 23.22 gr. of fine gold. 23.22 × .064798919 g. = 1.504630899 g. $1 = 1.504630899 g. fine.

1.5046309 g. ÷ .29032258 g. = fr. 5.1826175. Ans.

EXAMPLE 2.—Express the British pound sterling in terms of the German mark.

SOLUTION.— mk. 1 contains .358422939 g. fine gold; £1 sterling contains 113.001605 gr. fine gold. 113.001605 (gr.) × .064798919 g. = 7.32238185 g. £1 sterling = 7.32238185 g. fine.

7.32238185 g. ÷ .358422939 g. = mk. 20.4294455. Ans.

RATES OF EXCHANGE

36. The **rate of exchange** is the price at which a transfer of credit is made from one place to another. That is, it is the price at which foreign exchange on one place is bought or sold in another. In America, it is customary to apply the word exchange both to the instrument or bill of

exchange, and to the rate of exchange. It is so applied in the questions: "Have you any exchange for sale?" (meaning, Have you any bills of exchange for sale?) and "What is exchange today?" (meaning, What is the rate or price of exchange today?). The word is also classified by using the name of the city or country on which the bill is drawn, as, for example, London, or Paris, or Berlin exchange, etc.; or sterling, or French, or German, or Italian exchange. Sometimes, the word is omitted and only the name of the currency is used, as in the questions, "Have you any sterling, or marks, or francs (meaning francs on France), or guilders, or Swiss or Belgian francs, for sale?"

37. Different Forms of Stating Rates.—Between countries that use different monetary systems, the rates of exchange are stated in one of two ways, sometimes in both, according to usage: (1) in the money of the country *in* which they are quoted; (2) in the money of the country *on* which they are quoted. That is, the rate, being always a variable quantity, may be stated either as the price to be paid for a fixed foreign unit, or as the amount in foreign value that a fixed domestic unit will buy. For example, in America, exchange on Great Britain, Germany, Holland, or Austria is quoted in the American unit, in dollars, while exchange on France is quoted in the French unit, in francs. In Great Britain, exchange on America is quoted both in pence and in dollars, while exchange on Germany is quoted in marks, and that on France in francs. Difficulty is experienced by some in understanding this, partly because one form of quotation is the reverse of the other, and partly because the foreign monetary systems differ from one another. It is as if in quoting sugar to one country the rate was given as 5 cents per pound, and in quoting it to another the rate was given as $9\frac{1}{10}$ kilograms per $1, the variable quantity in one being the price to be paid for the sugar, and in the other the amount of sugar to be delivered for $1.

Between two or more countries that use the same monetary system, exchange is quoted as at par, or at a premium, or at

a discount. For example, this is true in the countries composing the Latin Union, the Scandinavian Union, in the United States and Canada, in Great Britain, and most of the British colonies. When it is above par, it is at a premium; and when below par it is at a discount.

The following shows how rates are stated in America:

The sterling rates (British) vary by $.0005, or by eighths, quarters, or halves of 1 cent. They are quoted so many dollars to £1 sterling; as, 4.85, $4.85\frac{1}{2}$, 4.8555, 4.86, 4.8610, 4.87, etc.

The mark rates (German) vary by sixteenths, eighths, or quarters of 1 cent. They are quoted so many cents to every 4 marks; as, .94, $.94\frac{1}{8}$, $.94\frac{5}{16}$, .95, $.95\frac{1}{4}$, etc. These rates are further modified in large transactions by adding or subtracting fractions of 1 per cent.; as, $\frac{1}{64}$, $\frac{1}{32}$, $\frac{1}{16}$, etc.; $.94\frac{1}{2}+\frac{1}{32}$, or $.94\frac{1}{2}-\frac{1}{32}$, etc., which is equivalent to $.945+.0002953125 = .9452953125$ to every 4 marks or, if subtracted, to .9447046875.

The guilder, or Dutch florin, rates (Holland) vary by thirty-seconds, sixteenths, eighths, or quarters of 1 cent, and are quoted so many cents to the guilder, being further modified by adding or subtracting fractions of 1 per cent.; as, $.39\frac{3}{4}$, .40, $.40\frac{1}{16}$, $.40\frac{1}{8}$, $.40\frac{1}{8}-\frac{1}{16}$, $.40\frac{1}{8}+\frac{1}{16}$, etc.

The franc rates (French, Belgian, Swiss) usually vary by $\frac{5}{8}$ centime, and are quoted so many francs to the dollar; as, $5.16\frac{1}{4}$, $5.16\frac{7}{8}$, $5.17\frac{1}{2}$, $5.18\frac{3}{4}$, $5.20\frac{5}{8}$, $5.21\frac{1}{4}$. The division by $\frac{5}{8}$ or .625 of a centime came into use because at first it was customary to divide rates by eighths of a cent, and $\frac{5}{8}$ of a centime is approximately equivalent to $\frac{1}{8}$ of a cent. These rates are also modified by adding or subtracting $\frac{1}{64}$, $\frac{1}{32}$, $\frac{3}{64}$, $\frac{1}{16}$, etc. of 1 per cent.

Intermediate rates varying by $\frac{1}{8}$ centime; as, $5.17\frac{5}{8}$, $5.17\frac{3}{4}$, $5.17\frac{7}{8}$ are also used, though less frequently, because the printed tables in general use follow the division by $\frac{5}{8}$.

The Italian rates are quoted in two ways—by cents to the lira—as, .1935, .1936, .1937, .1940, etc., and like the francs.

The Austrian rates vary by .0001 of a dollar, and are quoted so many cents to the krone, as .2035, .2037, .2040.

The Danish and Norwegian, and the Swedish rates vary by .0001 of a dollar, and are quoted so many cents to the krone, and the krona, as .2665, .2675, .2680, .27.

TABLE VI

CONVERSION OF STERLING INTO DOLLARS AND CENTS, AND VICE VERSA

(Rate 4.86½)

£	0	100	200	300	400	500
£	$ ct.	$ ct.	$ ct.	$ ct.	$ ct.	$ ct.
0		486.50.0	973.00.0	1,459.50.0	1,946.00.0	2,432.50.0
1	4.86.5	491.36.5	977.86.5	1,464.36.5	1,950.86.5	2,437.36.5
2	9.73.0	496.23	982.73.0	1,469.23.0	1,955.73.0	2,442.23.0
3	14.59.5	501.09.5	987.59.5	1,474.09.5	1,960.59.5	2,447.09.5
4	19.46.0	505.96.	992.46.0	1,478.96.0	1,965.46.0	2,451.96.0
5	24.32.5	510.82.5	997.32.5	1,483.82.5	1,970.32.5	2,456.82.5
6	29.19.0	515.69	1,002.19.0	1,488.69.0	1,975.19.0	2,461.69.0
7	34.05.5	520.55.5	1,007.05.5	1,493.55.5	1,980.05.5	2,466.55.5
8	38.92.0	525.42	1,011.92.0	1,498.42.0	1,984.92.0	2,471.42.0
9	43.78.5	530.28.5	1,016.78.5	1,503.28.5	1,989.78.5	2,476.28.5
10	48.65.0	535.15	1,021.65.0	1,508.15.0	1,994.65.0	2,481.15.0
11	53.51.5	540.01.5	1,026.51.5	1,513.01.5	1,999.51.5	2,486.01.5
12	58.38.0	544.88	1,031.38.0	1,517.88.0	2,004.38.0	2,490.88.0
S	0	1	2	3	4	5
d	$ ct.	$ ct.	$ ct.	$ ct.	$ ct.	$ ct.
0		.24.3	.48.6	.72.9	.97.3	1.21.6
1	.02.0	.26.3	.50.6	.75.0	.99.3	1.23.6
2	.04.0	.28.3	.52.7	.77.0	1.01.3	1.25.6
3	.06.0	.30.4	.54.7	.79.0	1.03.3	1.27.7
4	.08.1	.32.4	.56.7	.81.0	1.05.4	1.29.7
5	.10.1	.34.4	.58.7	.83.1	1.07.4	1.31.7
6	.12.1	.36.4	.60.8	.85.1	1.09.4	1.33.7

The complete table covers two pages for each rate, the upper section containing the pounds and the lower section the shillings and pence. In the second column of the upper section are given the values of from £1 to £99; in the third

TABLE VII

CONVERSION OF MARKS INTO DOLLARS
(*Rate .95*)

mk.	\$ ct.	mk.	\$ ct.	mk.	\$ ct.	pf.	ct.
1	.23.8	51	12.11.3	1,000	237.50	1	.00.2
2	.47.5	52	12.35	2,000	475.00	2	.00.5
3	.71.3	53	12.58.8	3,000	712.50	3	.00.7
4	.95	54	12.82.5	4,000	950.00	4	01.0
5	1.18.8	55	13.06.3	5,000	1,187.50	5	01.2
6	1.42.5	56	13.30	6,000	1,425.00	6	.01.4
7	1.66.3	57	13.53.8	7,000	1,662.50	7	.01.7
8	1.90.0	58	13.77.5	8,000	1,900.00	8	.01.9
9	2.13.8	59	14.01.3	9,000	2,137.50	9	.02.1
10	2.37.5	60	14.25.0	10,000	2,375.00	10	.02.4
11	2.61.3	61	14.48.8	11,000	2,612.50	11	.02.6
12	2.85.0	62	14.72.5	12,000	2,850.00	12	.02.9
13	3.08.8	63	14.96.3	13,000	3,087.50	13	.03.1
14	3.32.5	64	15.20.0	14,000	3,325.00	14	.03.3
15	3.56.3	65	15.43.8	15,000	3,562.50	15	.03.6

CONVERSION OF DOLLARS INTO MARKS

\$	mk. pf.	\$	mk. pf.	\$	mk. pf.	ct.	pf.
1	4.21.1	51	214.73.7	1,000	4,210.52.6	1	.04.2
2	8.42.1	52	218.94.7	2,000	8,421.05.3	2	.08.4
3	12.63.2	53	223.15.8	3,000	12,631.57.9	3	.12.6
4	16.84.2	54	227.36.8	4,000	16,842.10.5	4	.16.8
5	21.05.3	55	231.57.9	5,000	21,052.63.2	5	.21.1
6	25.26.3	56	235.78.9	6,000	25,263.15.8	6	.25.3
7	29.47.4	57	240.00.0	7,000	29,473.68.4	7	.29.5
8	33.68.4	58	244.21.1	8,000	33,684.21.1	8	.33.7
9	37.89.5	59	248.42.1	9,000	37,894.73.7	9	.38
10	42.10.5	60	252.63.2	10,000	42,105.26.3	10	.42.1
11	46.31.6	61	256.84.2	11,000	46,315.78.9	11	.46.3
12	50.52.6	62	261.05.3	12,000	50,526.31.6	12	.50.5
13	54.73.7	63	265.26.3	13,000	54,736.84.2	13	.54.7
14	58.94.7	64	269.47.4	14,000	58,947.36.8	14	.58.9
15	63.15.8	65	273.68.4	15,000	63,157.89.5	15	.63.2

TABLE VIII

CONVERSION OF FRANCS INTO DOLLARS
(*Rate .517½*)

	Units Tens	Hundreds	Thousands		
fr.	$ ct.	$ ct.	$ ct.	centimes	$ ct.
1	.19.3	19.32.4	193.23.7	1	.00.2
2	.38.6	38.64.7	386.47.3	2	.00.4
3	.58	57.97.1	579.71	3	.00.6
4	.77.3	77.29.5	772.94.7	4	.00.8
5	.96.6	96.61.8	966.18.4	5	.01.0
6	1.15.9	115.94.2	1,159.42.0	6	.01.2
7	1.35.3	135.26.6	1,352.65.7	7	.01.4
8	1.54.6	154.58.9	1,545.89.4	8	.01.5
9	1.73.9	173.91.3	1,739.13.0	9	.01.7
10	1.93.2	193.23.7	1,932.36.7	10	.01.9
11	2.12.6	212.56.0	2,125.60.4	11	.02.1
12	2.31.9	231.88.4	2,318.84.1	12	.02.3
13	2.51.2	251.20.8	2,512.07.7	13	.02.5
14	2.70.5	270.53.1	2,705.31.4	14	.02.7
15	2.89.9	289.85.5	2,898.55.1	15	.02.9

CONVERSION OF DOLLARS INTO FRANCS

$	fr. c.	fr. c.	fr. c.	ct.	fr. c.
1	5.17.5	517.50	5,175.00	1	.05.2
2	10.35.0	1,035.00	10,350.00	2	.10.4
3	15.52.5	1,552.50	15,525.00	3	.15.5
4	20.70.0	2,070.00	20,700.00	4	20.7
5	25.87.5	2,587.50	25,875.00	5	25.9
6	31.05.0	3,105.00	31,050.00	6	.31.1
7	36.22.5	3,622.50	36,225.00	7	.36.2
8	41.40.0	4,140.00	41,400.00	8	.41.4
9	46.57.5	4,657.50	46,575.00	9	.46.6
10	51.75.0	5,175.00	51,750.00	10	.51.8
11	56.92.5	5,692.50	56,925.00	11	56.9
12	62.10.0	6,210.00	62,100.00	12	.62.1
13	67.27.5	6,727.50	67,275.00	13	.67.3
14	72.45.0	7,245.00	72,450.00	14	.72.5
15	77.62.5	7,762.50	77,625.00	15	.77.6

column, the values of from £100 to £199; in the fourth, the values of from £200 to £299; etc. Thousands are obtained by moving the decimal point in the hundreds columns one point to the right, and ten thousands by moving it two points to the right. In the second column of the lower section are given the values of pence (1 to 11); in the top line the values of shillings (1 to 19), and on each line the value of the shilling plus the corresponding penny value; as 3s. 1d. = $.75, etc.

To reduce £21,308. 3s. 6d. at 4.86½ by means of this table, proceed as follows:

Upper section, fourth column,	£21,000 =	$102,165.00
fifth column,	£ 308 =	1,498.42
Lower section, fifth column,	3s. 6d. =	.85
	£21,308.3s. 6d. =	$103,664.27

38. **The reduction, or conversion,** of the currency of one country into that of another is effected either by the use of printed conversion tables or by simple multiplication or division. The conversion tables used most extensively by foreign-exchange banks are printed for sterling, francs, and marks, as shown in Tables VI, VII, and VIII. In the sterling table, only the reduction from sterling into dollars is given, but the table is easily used for the reduction of dollars into sterling. In the francs table and in the marks table, one page is for the reduction of foreign amounts into dollars and the other for the reduction of dollars into foreign amounts.

Other excellent conversion tables are published, which are useful for many purposes. Some of them give the reductions of a number of intermediate rates in addition to the regular rates. They may also include tables of a number of other foreign currencies as guilders, and Austrian and Scandinavian crowns. Few of these tables are, however, adapted to making conversions under each rate so rapidly as are the tables explained, for they give only a limited number of reductions, as from 1 to 9, then by 5's to 100 and so on—or from 1 to 100 and then by 500, etc.

39. Conversions Without Tables.—The following illustrations of the conversion of sterling, francs, marks, etc. by the long method—multiplication or division—will be sufficient to show the method of reducing foreign units to dollars and dollars to foreign units where tables are not used.

1. To convert English money into American, apply rule I. American rates are quoted as so many dollars to the pound.

Table IX shows the system of English currency.

TABLE IX

Farthings (far.)	Pence (d.)	Shillings (s.)	Pounds (£)	Decimals of a £
4	1			$.004\frac{1}{6}$
48	12	1		.05
960	240	20	1	

NOTE.—1 Guinea = 21 shillings.

Rule I.—*To reduce sterling to dollars, reduce shillings and pence to decimals of a pound by multiplying the shillings by .05 ($\frac{1}{20}$ of £1), and the pence by $.004\frac{1}{6}$ ($\frac{1}{240}$ of £1). Add these decimals to the pounds and multiply by the rate.*

EXAMPLE 1.—Reduce £1,112 3s. 4d. to dollars at $4.86\frac{1}{2}$.

SOLUTION.— 3s. 4d. is reduced to the decimal of a £ as follows:

$$3\text{s.} \times .05 = .15$$
$$4\text{d.} \times .004\frac{1}{6} = .016\frac{2}{3}$$
$$£.166\frac{2}{3}$$
$$1{,}112.166\frac{2}{3} \times 4.86\frac{1}{2} = \$5{,}410.69. \quad \text{Ans.}$$

2. To convert American money into English, apply rule II. Decimals of a penny are not generally reduced to farthings, but anything over $\frac{1}{2}$ penny is treated as 1 penny.

Rule II.—*To reduce dollars to sterling, divide the dollar amount by the rate and the result will be the number of pounds and decimals of a pound; multiply this decimal by 20 and the result will be the number of shillings and decimals of a shilling. Multiply the decimal of the shilling by 12 and the result will be the number of pence and decimals of a penny.*

EXAMPLE 2.—Reduce \$5,410.69 to sterling: (*a*) at 4.86, and (*b*) at $4.86\frac{1}{2}$.

SOLUTION.—

(*a*) \$5,410.69 ÷ 4.86 = 1,113.3107 = £1,113 6s. 3d. Ans.

(*b*) \$5,410.69 ÷ $4.86\frac{1}{2}$ = 1,112.1665 = £1,112 3s. 4d. Ans.

3. To convert German money into American, apply either rule III or rule IV. American rates are quoted as so many cents to every 4 marks—the mark (Rmk. or mk.) being equal to 100 pfennig (pf.).

Rule III.—*To reduce marks to dollars, divide the marks by 4 (rate is on 4 marks) and multiply the result by the rate.*

Rule IV.—*Divide the rate by 4, which will give the rate for 1 mark, and multiply the marks by this new rate.*

EXAMPLE 3.—Reduce mk.10,000 to dollars at .95.

SOLUTION.—By rule III,

mk.10,000 ÷ 4 = 2,500; 2,500 × .95 = \$2,375. Ans.

By rule IV,

\$.95 ÷ 4 = .2375; 10,000 × .2375 = \$2,375. Ans.

4. To convert American money into German, apply either rule V or rule VI.

Rule V.—*To reduce dollars to marks, divide the dollars by the rate and multiply the result by 4.*

Rule VI.—*Divide the rate by 4, which will give the rate per mark, and divide the dollars by this new rate.*

EXAMPLE 4.—Reduce \$10,000 to marks at .95.

SOLUTION.—By rule V,

\$10,000 ÷ .95 = 10,526.3158; 10,526.3158 × 4 = mk.42,105.2632. Ans.

By rule VI,

\$.95 ÷ 4 = .2375; 10,000 ÷ .2375 = mk.42,105.2332. Ans.

5. To convert foreign money other than marks into American, when the rate is quoted in the American unit, apply rule VII.

Rule VII.—*Multiply the foreign amount by the rate.*

EXAMPLE 5.—Reduce fl.10,000 to dollars at $.40\frac{1}{8}$.

SOLUTION.— fl.10,000 × $.40\frac{1}{8}$ = \$4,012.50. Ans.

TABLE X

Plus $\frac{3}{32}$ Per Cent.	Plus $\frac{1}{16}$ Per Cent.	Plus $\frac{1}{32}$ Per Cent.	Rate	Less $\frac{1}{32}$ Per Cent.	Less $\frac{1}{16}$ Per Cent.	Less $\frac{3}{32}$ Per Cent.
Cents	Cents	Cents		Cents	Cents	Cents
.19.459295	.19.453220	.19.447144	5.14$\frac{3}{8}$ (.19441069)	.19.434994	.19.428918	.19.422843
.19.435680	.19.429612	.19.423544	5.15 (.19417476)	.19.411408	.19.405340	.19.399272
.19.412121	.19.406060	.19.400000	5.15$\frac{5}{8}$ (.19393939)	.19.387878	.19.381818	.19.375757
.19.388620	.19.382567	.19.376513	5.16$\frac{1}{4}$ (.19370460)	.19.364407	.19.358353	.19.352300
.19.365175	.19.359129	.19.353083	5.16$\frac{7}{8}$ (.19347037)	.19.340991	.19.334945	.19.328900
.19.341787	.19.335748	.19.329710	5.17$\frac{1}{2}$ (.19323671)	.19.317632	.19.311594	.19.305555

.19.318456	.19.312425	.19.306393	5.18⅛ (.19300362)	.19.294331	.19.288299	.19.282268
.19.295180	.19.289156	.19.283132	5.18¾ (.19277108)	.19.271084	.19.265060	.19.259036
.19.271962	.19.265945	.19.259928	5.19⅜ (.19253910)	.19.247894	.19.241877	.19.235861
.19.248798	.19.242788	.19.236779	5.20 (.19230769)	.19.224759	.19.218740	.19.212740
.19.225690	.19.219688	.19.213685	5.20⅝ (.19207683)	.19.201681	.19.195678	.19.189676
.19.202638	.19.196640	.19.190647	5.21¼ (.19184652)	.19.178657	.19.172662	.19.166666
.19.179641	.19.173653	.19.167665	5.21⅞ (.19161677)	.19.155689	.19.149701	.19.143713
.19.156699	.19.150718	.19.144737	5.22½ (.19138756)	.19.132775	.19.126794	.19.120813

6. To convert American money into foreign other than marks, when the rate is quoted in the American unit, apply rule VIII.

Rule VIII.—*Divide the amount in dollars by the rate.*

EXAMPLE 6.—Reduce $[illegible] to kronen, Austrian, at .2040.

SOLUTION.—$[illegible] ÷ .2040 = kr. [illegible]

7. To convert French money into American, apply rule IX. American rates are quoted as so many francs to the dollar—the franc (fr.) being 100 centimes.

Rule IX.—*To reduce francs to dollars, divide the francs by the rate.*

EXAMPLE 7.—Reduce fr. [illegible] to dollars (a) at 5.17½; (b) at 5.18¾.

SOLUTION.—(a) fr. [illegible] ÷ 5.175 = $[illegible] Ans.
(b) fr. [illegible] ÷ 5.1875 = $[illegible] Ans.

8. To convert American money into French, apply rule X.

Rule X.—*To reduce dollars to francs, multiply the dollars by the rate.*

EXAMPLE 8.—Reduce $[illegible] to francs (a) at 5.17½; (b) at 5.18¾.

SOLUTION.—(a) $[illegible] × 5.17½ = fr. [illegible] Ans.
(b) $[illegible] × 5.18¾ = fr. [illegible] Ans.

40. The Use of Fractions of 1 Per Cent. Preceded by a Plus or a Minus Sign as Part of a Rate.—When a rate consists of a fixed amount and a fraction connected to it by a plus or a minus sign, that fraction is actually a fraction of 1 per cent., and if decimally expressed would read, for example, .00[illegible] or .00[illegible] instead of [illegible] or [illegible]. This form of rate means that 1/16 times 1 per cent. of the dollar value is to be added to or subtracted from that dollar value. For example, when the rate is expressed in dollars, as the mark rate and the florin rate, a rate of .95 − 1/16 means .95 − (.0095 × 1/16), and a rate of .40 + 1/16 means .40 + (.0040 × 1/16); when, however, the rate is expressed in a foreign unit, as the franc rate, a rate of 5.17½ − 1/16 means 5.17½ − ([illegible] × 1/16).

EXAMPLE 1.—Reduce mk.10,000 to dollars at: (*a*) $.95 + \frac{1}{16}$; (*b*) $.95 - \frac{1}{16}$.

SOLUTION.—(*a*) mk.10,000 at .95 = \$2,375; \$23.75 $\times \frac{1}{16}$ = \$1.48.
mk.10,000 at $.95 + \frac{1}{16}$ = \$2,375 + \$1.48 = \$2,376.48. Ans.
(*b*) mk.10,000 at $.95 - \frac{1}{16}$ = \$2,375 − \$1.48 = \$2,373.52. Ans.

EXAMPLE 2.—Reduce fr.10,000 to dollars at: (*a*) $5.17\frac{1}{2} + \frac{1}{16}$; (*b*) $5.17\frac{1}{2} - \frac{1}{16}$.

SOLUTION.—(*a*) fr.10,000 at $5.17\frac{1}{2}$ = \$1,932.367; \$19.32367 $\times \frac{1}{16}$ = \$1.207.
fr.10,000 at $5.17\frac{1}{2} + \frac{1}{16}$ = \$1,932.367 + 1.207 = \$1,933.57. Ans.
(*b*) fr.10,000 at $5.17\frac{1}{2} - \frac{1}{16}$ = \$1,932.367 − 1.207 = \$1,931.16. Ans.

Table X shows the equivalent in cents of 1 franc at different rates from $5.14\frac{3}{8}$ *down* to $5.22\frac{1}{2}$ plus and minus $\frac{1}{32}$, $\frac{1}{16}$, and $\frac{3}{32}$ of 1 per cent.

Similar tables may be made of the German and Dutch rates. Such tables may be used for conversion purposes, but it is not the general practice among bankers to do this except for sums in thousands. For example, fr.100,000, by Table X, at a rate of $517\frac{1}{2} - \frac{1}{32}$ is equal to \$19,317.63. Other amounts are converted by the use of the tables as illustrated in Tables VII and VIII, the fraction being added to or subtracted from the result, as in examples 1 and 2.

Table XI is not used as a conversion table, but shows the application of these fractions to the French rates as well as to their equivalents in cents. This table also shows that the result of arranging these rates and their equivalents in their proper sequence is to make them cross one another, or, as it were, to interlace them. This is a very important factor in foreign-exchange transactions that frequently puzzles those not in active practice who do not arrange such tables.

X **41. Fluctuation in the Rates.**—In general, rates of exchange fluctuate from the par of exchange to figures above or below it, according to the relation of the supply of bills of exchange to the demand for them. The following statement shows the transactions that create a supply of bills of exchange, and those that create a demand for them. For clearness, it is made to apply to America, but it applies as well to all countries.

SUPPLY	DEMAND
Exports of merchandise of all kinds.	Imports of merchandise of all kinds.
Exports of securities of all kinds.	Imports of securities of all kinds.
Loans obtained from foreign countries by American banks, etc.*	Loans made to foreign countries by American banks, etc.*
Interest on loans made to foreign countries.	Interest on loans obtained from foreign countries.
Settlements of loans made to foreign countries.	Settlements of loans obtained from foreign countries.
Investments of foreign capitalists in American enterprises.	Investments by Americans in foreign enterprises.
Income to Americans from their investments in foreign enterprises.	Income to foreigners from investments in American enterprises.
Sales, by Americans, of their investments in foreign enterprises.	Sales by foreigners of their investments in American enterprises.
Expenses of foreign travelers in America.	Expenses of American travelers in foreign countries.
Expenses of foreign governments in America.	Expenses of the American government in foreign countries.
Freight, insurance premiums, commissions, etc. collected abroad and due to American houses.	Freight, insurance premiums, commissions, etc. collected in America and due to foreign houses.
Insurance losses, etc. due to American beneficiaries by foreign companies.	Insurance losses, etc. due to foreign beneficiaries by American companies.
Gifts, educational, charitable, and other interests, for which money is received in America from foreign countries.	Gifts, educational, charitable, and other interests, for which money is sent to foreign countries by America.
The supply consists of: bills of exchange that have been drawn in America against foreign countries to cover some of these transactions; and bills of exchange issued abroad and remitted by foreign countries to America in payment of other transactions.	The demand consists of: bills of exchange issued in America for remittance to foreign countries in payment of some of these transactions; and bills of exchange drawn in foreign countries against America to cover other transactions.

NOTE.—After a careful study of the above, it will be found useful to refer to the statement of the way the business is conducted, found under the definition of the term foreign exchange.

*A loan obtained from a foreign country is a credit to America until its settlement at maturity, and therefore it figures in the supply. In the same way, a loan made to a foreign country is a debit against America until its settlement at maturity, and therefore figures in the demand.

TABLE XI

Rate	Value of \$1 Francs	Value of 1 Franc Cents	Rate	Value of \$1 Francs	Value of 1 Franc Cents
$5.18\frac{1}{8}$	5.18125	.193004	$5.17\frac{1}{2}$	5.175	.193237
$5.17\frac{1}{2} - \frac{3}{32}$	5.17985	.193055	$5.16\frac{7}{8} - \frac{3}{32}$	5.1736	.193289
$5.18\frac{1}{8} + \frac{1}{32}$	5.17963	.193064	$5.17\frac{1}{2} + \frac{1}{32}$	5.17338	.193297
$5.17\frac{1}{2} - \frac{1}{16}$	5.17823	.193116	$5.16\frac{7}{8} - \frac{1}{16}$	5.17198	.193349
$5.18\frac{1}{8} + \frac{1}{16}$	5.17801	.193124	$5.17\frac{1}{2} + \frac{1}{16}$	5.17177	.193357
$5.17\frac{1}{2} - \frac{1}{32}$	5.17662	.193176	$5.16\frac{7}{8} - \frac{1}{32}$	5.17037	.19341
$5.18\frac{1}{8} + \frac{3}{32}$	5.17639	.193184	$5.17\frac{1}{2} + \frac{3}{32}$	5.17015	.193418

In the transactions between America and each foreign country:

An excess in the supply of bills over the demand for them, at any one time, creates a credit balance in the foreign country in favor of America, and a credit balance abroad is a debit balance in America. It also makes the rate decline below par.

An excess in the demand for bills over the supply of them, at any one time, is created by a debit balance in the foreign country against America, and a debit balance abroad is a credit balance in America. It also makes the rate rise above par.

42. Bankers, however, make a practice of equalizing, as far as possible, the rates on different countries by readjusting their foreign balances. This is done by making transfers from places where the bank's balances are larger than required to places where they are smaller than required. Whenever this process of equalization is made use of, it may be more accurate to say that rates fluctuate in each country as the net balance of its balances with all countries. This readjustment of balances is not so perfect in its operation that the rates on all countries are entirely equalized, so that there are always slight differences between the rates.

43. Export and Import Points, or Gold Points.—In general, rates do not rise above the gold export point; nor

do they decline below the gold import point; for example, when America owes more to foreign countries than they owe to America, the demand for bills of exchange is necessarily greater in America than the supply. At such a time, as has been shown, the rates in America rise above par. If the demand continues to increase more rapidly than the supply, or while the supply decreases, America's debts are increasing. Consequently, the rates will rise still higher, until a point is reached where it becomes as cheap or cheaper to export gold in order to pay off the balances due the foreign countries. That is to say, when, in America, the rate for a bill of exchange rises to a point at which it is cheaper to buy the necessary amount of gold from the assay office, pack it, insure it, pay freight and charges on it, and allow for loss by abrasion, and for the interest on the gold from its purchase to its arrival at destination, the gold export point is reached, and gold is shipped from New York. On the other hand, when the reverse conditions exist, that is, when America is the creditor nation, the supply of bills is always greater than the demand for bills. The rates in America then fall, as has been explained, and when they continue to fall until the gold import point is reached, America receives gold from abroad.

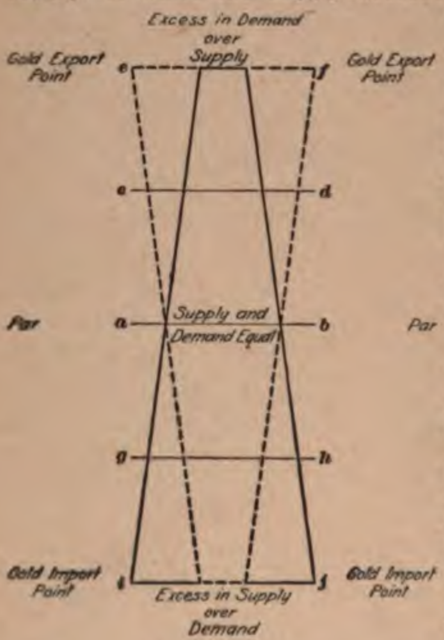

FIG. 1

Fig. 1 illustrates the general principle on which rates of exchange fluctuate in every country. It is composed of two

equal figures, one shown by means of dotted lines and the other by means of solid lines, placed one on the other in the positions indicated. The dotted-line figure represents the demand for bills and the solid-line figure the supply of bills. The relative widths of the two figures at any given point, as *a b*, *c d*, *e f*, *g h*, and *i j*, show the relation between the supply and the demand.

Theoretically, at *a b*, where the two figures cross each other, indicating equal supply and demand, the rates will

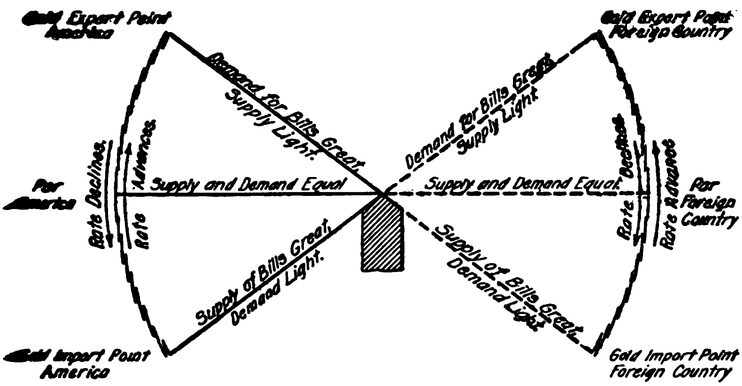

Fig. 2

be at par; at *c d*, where the demand is greater than the supply, the rates will be above par; at *e f*, the demand becomes so much greater than the supply that the rates will reach the gold export point; at *g h*, where the supply is greater than the demand, the rates will decline below par; and at *i j*, the supply becomes so much greater than the demand that the rates will reach the gold import point.

Practically, however, there is no doubt that the fluctuations in the rates do not strictly conform to this rule. That is to say, equal supply and demand will not necessarily exist when exchange is at par, but may be found when it is above or below par; and the greatest difference between supply and demand will not necessarily exist at the gold export and import points, but may be found at points below the export and above the import point. This is largely due to the fact

that there is no central bureau of exchange at which all banks are required to report their foreign-exchange transactions, so that it is impossible to know the daily totals of those transactions and the actual relation between supply and demand. Speculation is also sometimes responsible for changes in rates.

It will be seen from the preceding that, in exchange transactions between two countries, as the rate rises in one country it falls in the others, and therefore that when the export point is reached in one the import point is necessarily reached in the others. This is a seesaw action as shown in Fig. 2.

44. Readjustments and Settlements.—Foreign-exchange transactions, however, do not stop for the readjustment and settlement of international balances. While the debtor country is adjusting its balances, or discharging its obligations by shipping gold, the supply of export and other bills generally increases sufficiently to cause a decline in the rate below the export point and the movement of gold is stopped.

The position of exchange, that is, the position of the rate with relation to the mint par and the export and import points of gold, indicates the extent to which one country is the debtor to the other.

The ability of a country to discharge its obligations in gold when the export point is reached is an indication of its financial strength.

45. Terms Used to Describe Fluctuations in Rates and Their Meaning.—Exchange is said to be *high* or *low* according to its relation to the gold export point or to the gold import point. It is high when it approaches or reaches the export point; it is low when it approaches or reaches the import point.

Exchange is said to have *advanced*, *gone up*, *risen*, or *jumped*, or to have *declined*, *gone down*, *fallen*, or *dropped*, according to whether it produces less or more in the foreign unit than was produced by a former quotation, and

conversely, according to whether the foreign unit produces more or less in the domestic unit. It has advanced when it produces less in the foreign unit, and it has declined when it produces more in the foreign unit. It is necessary to keep these facts clearly in mind, because since rates between countries using different monetary systems are quoted in two different ways, as already described, one being the converse of the other, it is the result that determines whether a change in rate is an advance or a decline, and whether one quotation is higher or lower than another. Table XI illustrates this, for it shows that as the values in cents increase, the values in francs decrease. Applying the illustration of sugar already used: In one case, a change in the price from 5 cents to $5\frac{1}{8}$ cents per pound is an advance, and in the other case, a change from $9\frac{1}{10}$ kilograms to $8\frac{9}{10}$ kilograms is an advance, since in both cases less sugar would be obtained for $1.

46. An advance in rate is shown: (*a*) By an increase in the figures of the rate, if the rate is stated in the unit of the country *in which* it is quoted. For example, rates on London are quoted in America in the American unit; therefore, a change in the rate from 4.86 to $4.86\frac{1}{2}$ is an advance, because it is an increase in the figures of the rate, also because a rate of $4.86\frac{1}{2}$ produces less in sterling than a rate of 4.86, as follows: $10,000 at 4.86 = £2,057 12s. 3d.; $10,000 at $4.86\frac{1}{2}$ = £2,055 10s.

(*b*) By a decrease in the figures of the rate, if the rate is stated in the unit of the country *on which* it is quoted. Where a fraction of 1 per cent. is used as part of this rate, a plus sign before the fraction decreases the net figures of the rate below the fixed part. The rates on Paris are quoted in America in the French unit; therefore, a change in the rate from $5.18\frac{1}{8}$ to $5.17\frac{1}{2}$ is an advance, because it is a decrease in the figures of the rate; that is, a decrease in the number of francs produced by $1, and this is an advance. A change from $5.18\frac{1}{8}$ to $5.18\frac{1}{8} + \frac{1}{16}$ is also an advance, because by reference to the calculations of francs it will be

seen that $5.18\frac{1}{8} + \frac{1}{16}$ is equal to fr.5.178012, which is less than fr.5.18125.

An advance in rate is also shown by a *decrease* in the discount, or by an *increase* in the premium.

47. A decline in the rate is shown in the reverse way: (*a*) By a decline in the figures of the rate, if the rate is stated in the unit of the country *in which* it is quoted. A change in the sterling rate from $4.86\frac{1}{2}$ to 4.86 is a decline. (*b*) By an increase of the figures of the rate, if the rate is stated in the unit of the country *on which* it is quoted. A change from $5.17\frac{1}{2}$ to $5.18\frac{1}{8}$ is a decline; also, a change from $5.17\frac{1}{2}$ to $5.17\frac{1}{2} - \frac{1}{16}$ is a decline. (*c*) By a decrease in the premium or by an increase in the discount.

48. Actual Rates and Posted Rates.—**Actual rates** are those at which exchange is sold in large amounts—wholesale rates. **Posted rates** are those at which exchange is sold in small amounts and are so called because they are posted or hung up in a prominent place in every foreign-exchange office; they might be called retail rates.

49. How Rates Are Established.—There is no central bureau for foreign exchange, corresponding to the Stock Exchange, the Cotton Exchange, the Board of Trade, where rates of exchange are made and where exchange transactions are recorded. Rates are established in the financial centers of each country: in New York for America, in London for Great Britain, in Paris for France, in Berlin and Hamburg for Germany, etc. For example, in New York, each bank fixes its own opening rates about 10 A. M. every day. In order to understand the operation, it is necessary to bear the fact clearly in mind that the principal financial center of the world is practically the controlling factor in establishing rates of exchange on other centers. London has, with scarcely a break, occupied that position for more than a century. On a few occasions, Paris has temporarily acquired the position, but it has reverted to London in a short time. Therefore, in this explanation, London will be taken as the controlling center, as shown in Fig. 3. The rate between

London and each center is indicated by a continuous line, and those between New York and the continental centers by broken lines. The London rate is arrived at in each center more or less independently of the London rates at other centers. Each morning, the New York banker receives cable advices from London and the continental centers. The London cable gives the London rate on New York, and sometimes those on the continental centers; the continental cables, among other things, give their respective rates on London. Having in the first place established the London

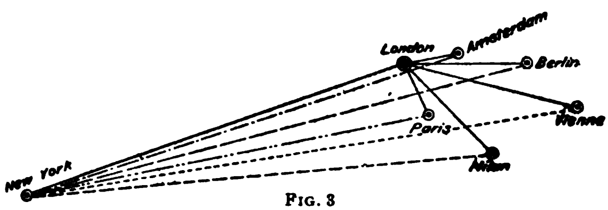

FIG. 3

rate, the New York banker takes, for example, the Paris rate on London as given in the Paris cable and by calculations determines what his Paris rate shall be. In this way, he proceeds through the list until the New York rate for each center is established.

It will thus be seen that as London is the financial center, the fluctuations of the continental rates in New York are largely the reflections of the fluctuations in the continental rates of sterling.

Each rate obtained in New York is, however, subject to some modifications as a result of the special influence of one or more of the following conditions: (*a*) The closing rates of the previous day; (*b*) the cable advices received from each of the principal foreign financial centers showing the condition of the respective money markets, the private rates of discount, the exchange rates between themselves, and their bids and offers; (*c*) the receipts of exchange and the demand for it contained in the morning domestic mails, the bids for exchange and offerings of exchange received by wire from other foreign-exchange banks; (*d*) the condition

of the local money and stock markets; (*e*) the condition of the foreign balances at the close of the previous day; (*f*) maturities of foreign loans, contracts for the day, provisions for future contracts, new loans, etc.; (*g*) the export and import market; (*h*) commercial, financial, and political events of such importance as to promote or interfere with international commerce, weaken or strengthen a nation's credit, disturb international relations, or the internal peace of a nation; and in fact anything that affects interchange of credit by the laws of supply and demand, and the normal movement of gold in the settlement of international balances. All these factors, with varying degrees of importance, are considered by the banker before deciding whether to bid for exchange, or offer it; whether to do both or neither; and what rates he will ask and what rates he will bid.

50. How Rates Are Given Out.—Rates are given out in two ways: (1) By brokers who make a circuit of the principal foreign-exchange banks, obtain the rates each has fixed and opinions or estimates of what is called the foreign-exchange market; (2) by the banks themselves, who ask of and quote rates to one another by telephone. The brokers having determined the average bid and asked rates on London, Paris, Berlin, etc., from the information thus obtained, and the general state of the market, immediately telegraph the rates to their bank correspondents in other cities, such as Philadelphia, Boston, Chicago, St. Louis, New Orleans, San Francisco, and describe the market as strong, weak, or steady, according to their judgment of the indications, stating whether it is likely to advance, or decline, or remain stationary.

51. Sensitiveness of the Rates.—Rates of exchange are extremely sensitive to everything of importance commercially, financially, and politically. While in an inactive market they may remain practically unchanged throughout the day, and indeed for several successive days, in an active or uncertain market they fluctuate rapidly, rising and falling in response to any changes in conditions. This is especially

TABLE OF COMPAR

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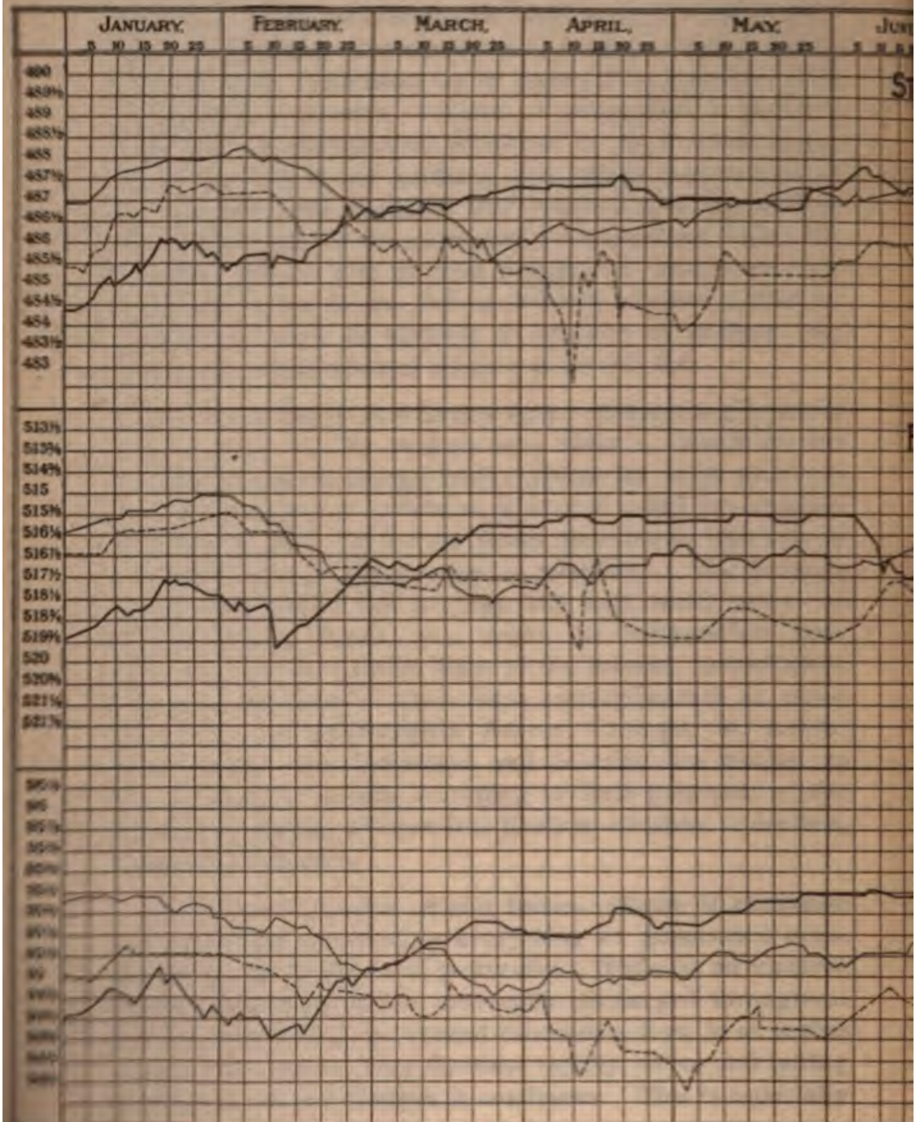

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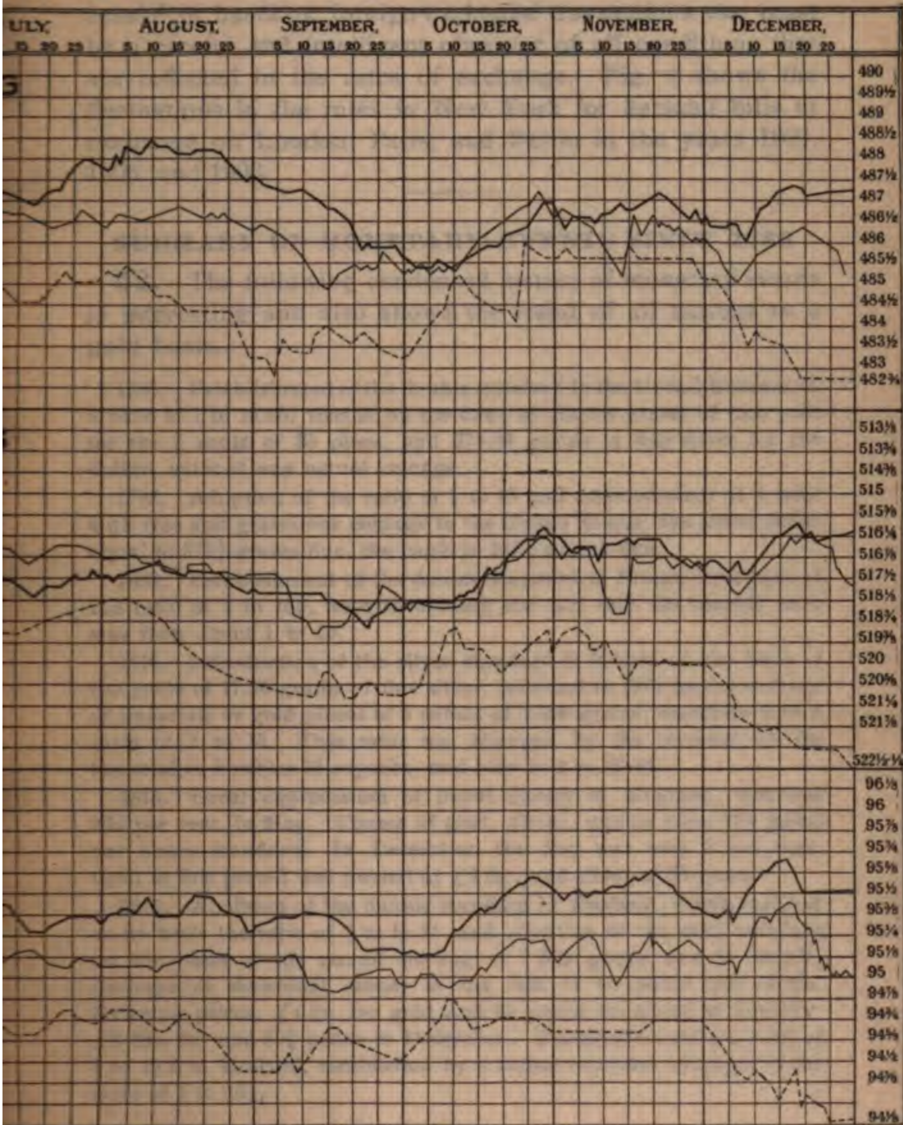


ER & Co.

true in the principal centers of foreign exchange, such as New York, Philadelphia, Boston, Chicago, in America; London, Paris, Berlin, in Europe. Therefore, to be successful in handling foreign-exchange transactions one must be a careful and intelligent observer of all conditions that are reflected n the rates of exchange. Fig. 4 shows the fluctuations in the rates in New York for demand bills of exchange on London, Paris, and Berlin in the years 1904, 1905, and 1906.

SUMMARY OF MONETARY EVENTS SINCE 1786

52. The following condensed history of monetary events is interesting and also shows the trend of all nations to a gold basis.

1786. Establishment of the double standard in the United States with a ratio of 1 to 15.25; that is, on the basis of 123.134 grains of fine gold for the ½ eagle or $5 piece, and 375.64 grains of fine silver for the dollar, without any actual coinage

1792. Adoption of the ratio of ' to 15 and establishment of a mint with free and gratuitous coinage in the United States; the silver dollar equal to 371¼ grains fine, the eagle to 247½ grains fine.

1803. Establishment of the double standard in France on a basis of the ratio of 1 to 15½, notwithstanding the fact that the market ratio was then about 1 to 15.

1810. Introduction of the silver standard in Russia on the basis of the ruble of 17.99 grams of fine silver, followed in 1871 by the coinage of imperials or gold pieces of 5 rubles of 5.998 grams, therefore with a ratio of 1 to 15. This ratio was changed by the increase of the imperial to 5 rubles 15 copecks, and later to 1 to 15.45.

1815. Great depreciation of paper money in England, reaching 26½ per cent. in May. Course of gold, £5 6s., and of silver 71½ pence per ounce standard. In December, the loss was only 6 per cent. Gold at this period was quoted at £4 3s., and silver at 64 pence.

1816. Abolition of the double standard in England, which had had as its basis the ratio of 1 to 15.21, and adoption of the gold standard on the basis of the pound sterling at 7.322 grams fine in weight Coinage of divisional money at the rate of 66 pence per ounc E treme prices, £4 2s. for gold and 64 pence for silver in Januar £3 18s. 6d. and 59¼ pence in December. Substitution for the ratio 1 to 15.5 in Holland, established by a rather confused coinage, of t e ratio of 1 to 15⅞.

1819. Abolition of forced currency in England. Price of gold, £3 17s. 10½d., and of silver 62 pence per ounce in October against £4 1s. 6d. and 67 pence in February.

1832. Introduction of the monetary system of France in Belgium with a decree providing for the coinage of pieces of 20 and 40 francs, which, however, were not stamped. Silver 59[illegible] pence.

1834. Substitution of the ratio of 1 to 16 for that of 1 to 15 in the United States by reducing the weight of the eagle $10 gold piece from 270 grains to 258 grains. In 1837 the fineness of the United States gold coins was raised from .89225 to .900 and the silver coins from .8924 to .900, giving a ratio of 1 to 15.988 and fixing the standard weight of the silver dollar at 412½ grains. Silver 59[illegible] pence.

1835. Introduction of the company rupee, a piece of silver weighing 165 grains fine, in India, in place of the sicca rupee. Creation of a trade coin—the mohur, or piece of 15 rupees—containing 165 grains of fine gold. Silver 59[illegible] pence.

1844. Introduction of the double standard in Turkey with the ratio 1 to 15.10. Silver 59[illegible] pence.

1847. Abolition of the double standard in Holland by the introduction of the silver standard on the basis of a 1-florin piece .945 gram fine, the coinage of which had already been decreed in 1839. Silver, 59 1/16 pence.

1848. Discovery of the gold mines of California. Coinage in Belgium of pieces of 10 and 25 francs in gold that were a shade too light; these pieces were demonetized and withdrawn from circulation in 1854. Silver, 59[illegible] pence. Replacing of the ratio of 1 to 16 in Spain, which had been in force since 1786, by that of 1 to 1[illegible].

1850. Introduction of the French monetary system in Switzerland, without any actual coinage of gold pieces. Silver [illegible] pence.

1851. Discovery of the gold mines of Australia.

1853. Lowering of the weight of silver pieces of less value than $1 to the extent of 7 per cent in the United States and limitation of their legal-tender power to $5. Silver [illegible] pence. Maximum of the production of gold reached in California, when it amounted to $65,000,000.

1854. Introduction of the gold standard in Portugal on the basis of the crown of 16.257 grams fine. Before this period the country had the silver standard, with a rather large circulation of gold coins stamped on the basis of 1 to 15[illegible] in 18[illegible] and 1 to 1[illegible] in 1847. Silver, [illegible] pence. Modification of the ratio of 1 to [illegible] in Spain by raising it to 1 to 15.[illegible] and by lowering the piaster from [illegible] grams to [illegible] grams fine. Introduction of the silver standard as it existed in the mother country in Java in place of the old Java [illegible] money and coinage of [illegible] silver pieces.

1857. Conclusion of a monetary treaty between Austria and the German States, in accordance with which 1 pound of fine silver ($\frac{1}{2}$ kilogram) was stamped into 30 thalers or $52\frac{1}{2}$ florins of South Germany, or 45 Austrian florins, resulting in 1 thaler equaling $1\frac{3}{4}$ German florins or $1\frac{1}{2}$ Austrian florins. Silver, $61\frac{3}{4}$ pence.

1861. Law decreeing the coinage of gold pieces of 10 and 20 francs exactly equal to French coins of the same denomination in Belgium. Silver, $61\frac{3}{4}$ pence.

1862. Adoption of the French monetary system by Italy. Silver, $61\frac{7}{16}$ pence.

1865. Formation of the Latin Union between France, Belgium, Switzerland, and Italy on the basis of a ratio of 1 to $15\frac{1}{2}$. Silver, $61\frac{1}{16}$ pence.

1867. First international monetary conference held in Paris.

1868. Adoption of the French monetary system by Roumania, with the exclusion of the 5-franc silver piece, which was, however, stamped in 1881 and 1883. Silver, $60\frac{1}{2}$ pence. Admission of Greece into the Latin Union. The definite and universal introduction of the French monetary system into the country was effected only in 1883. Adoption of the French monetary system, with the peseta or franc as the unit, by Spain. The coinage of alphonses d'or of 25 pesetas was made only in 1876.

1871. Replacing of the silver standard in Germany by the gold standard. Coinage in 1873 of gold pieces of 5-, 10-, and 20-mark pieces, the latter weighing 7.168 grams fine. Silver, $60\frac{1}{2}$ pence. Establishment of the double standard in Japan with the ratio of 1 to 16.17 by the coinage of the gold yen of 1.667 grams and of the silver yen of 26.956 grams, both with a fineness of .900.

1873. Increase of the intrinsic value of the subsidiary coins of the United States. Replacing of the double standard by the gold standard. Reduction of the cost of coinage of gold to $\frac{1}{5}$ per cent., the total abolition of which charge was decreed in 1875. Creation of a trade dollar of 420 grains with a fineness of .900. Silver, $59\frac{1}{4}$ pence. Suspension of the coinage of 5-franc pieces in Belgium. Limitation of the coinage of 5 francs on individual account in France. Suspension of the coinage of silver in Holland. Formation of the Scandinavian Monetary Union. Replacing of the silver standard in Denmark, Sweden, and Norway by that of gold on the basis of the krone. Coinage of pieces of 10 and 20 kroner, the latter weighing 8.961 grams, with a fineness of .900.

1874. Introduction of the system of contingents for the coinage of 5-franc silver pieces in the Latin Union. Silver, $58\frac{5}{16}$ pence.

1875. Suspension of the coinage of silver on individual account in Italy. Silver, $56\frac{7}{8}$ pence. Suspension of the coinage of silver on

account of the Dutch colonies. Introduction of the double standard, in Holland, on the basis of the ratio of 1 to 15.62 by the creation of a gold piece of 10 florins, weighing 5.048 grams fine, with the maintenance of the suspension of the coinage of silver.

1876. Great fluctuations in the price of silver, which declined to $46\frac{3}{4}$ pence, representing the ratio of 1 to 20.172, in July; recovery, in December, to $58\frac{1}{2}$ pence. Average price, $52\frac{3}{4}$ pence.

1877. Coinage of 5-franc silver pieces by Spain continued later, notwithstanding the decline of silver in the market. Silver, $54\frac{3}{4}$ pence. Replacing of the double standard in Finland by that of gold on the basis of the mark or franc.

1878. Act of United States Congress providing for the purchase, from time to time, of silver bullion, at the market price thereof, of not less than $2,000,000 worth per month as a minimum, nor more than $4,000,000 worth per month as a maximum, and its coinage as fast as purchased into silver dollars of $412\frac{1}{2}$ grains. The coinage of silver on private account prohibited. Silver, $52\frac{9}{16}$ pence. Meeting of the second international monetary conference in Paris. Prolongation of the Latin Union to January 1, 1886.

1879. Suspension of the sales of silver by Germany. Silver, $51\frac{1}{4}$ pence. Resumption of specie payment by the United States.

1881. Third international monetary conference in Paris. Silver, $51\frac{11}{16}$ pence.

1885. Introduction of the double standard in Egypt. Silver, $48\frac{3}{4}$ pence. Prolongation of the Latin Union to January 1, 1891.

1886. Great decline in the price of silver, which fell in August to 42 pence, representing a ratio of 1 to 22.5, and recovery, in December, to 46 pence. Modification of the coinage of gold and silver pieces in Russia. Silver, $45\frac{3}{8}$ pence.

1887. Retirement of the trade dollars by the Government of the United States in February. Demonetization of the Spanish piasters, known as Ferdinand Carolus, whose reimbursement at the rate of 5 pesetas ended on March 11. New declines of silver in March to 44 pence, representing the ratio of 1 to 21.43. Silver, $44\frac{5}{8}$ pence.

1890. In the United States, repeal of the act of February 28, 1878, commonly known as Bland-Allison law, and substitution of authority for purchase of 4,500,000 fine ounces of silver each month, to be paid for by issue of Treasury notes payable in coin. (Act of July 14, 1890.) Demonetization of 25,000,000 lei in pieces of 5 lei in Roumania in consequence of the introduction of the gold standard by the law of October 27. Silver, $47\frac{11}{16}$ pence.

1891. Introduction of the French monetary system in Tunis on the basis of the gold standard. Coinage of national gold coins and billon. Silver, $45\frac{1}{16}$ pence.

1892. Replacing of the silver standard in Austria-Hungary by that of gold by the law of August 2. Coinage of pieces of 20 crowns, containing 6.098 grams fine. The crown equals $\frac{1}{2}$ florin. Meeting of the fourth international monetary conference at Brussels. Production of gold reaches its maximum, varying between 675,000,000 and 734,000,000 francs. Silver, $39\frac{13}{16}$ pence.

1893. Suspension of the coinage of silver in British India and of French trade dollars on individual account. Panic in the silver market, in July, in London, when the price fell to $30\frac{1}{2}$ pence, representing the ratio of 1 to 30.92. Repeal of the purchasing clause of the act of July 14, 1890, by the Congress of the United States.

1895. Adoption of the gold standard by Chile. Russia decides to coin 100,000,000 gold rubles in 1896.

1896. Costa Rica adopts the gold standard. Russia decides to resume specie payments.

1897. Adoption of the gold standard by Russia and Japan. Peru suspends the coinage of silver and prohibits its importation.

1898. Ecuador limited the tender of silver coins to the amount of 10 sucres.

1899. India adopted the gold standard at the rate of 15 rupees to 1 pound sterling (British standard).

1900. United States adopted the gold standard. Ecuador adopted the gold standard.

1901. San Domingo adopted United States gold as standard.

1903. Colombia adopted the gold standard. Philippines adopted the gold standard.

1904. Panama adopted the gold standard.

1905. Mexico adopted the gold standard.

FOREIGN EXCHANGE

(PART 2)

BILLS OF EXCHANGE, AND OTHER ORDERS FOR MONEY

TERMS AND DEFINITIONS

1. Bills of Exchange.—A **bill of exchange** is an unconditional written order from one person to another, to pay to a specified person or to his order a given sum of money. It may be payable on demand or at sight, or at a fixed or determinable future time, as____days or____months after date or after sight. It is an order for money that is in negotiable form. It is frequently spoken of as a *bill* or as *exchange;* in writing it is referred to by the abbreviation *B/Ex.*

2. Drafts.—The term **draft** is frequently used interchangeably with the term bill of exchange. It is, however, a more general term, and covers both written orders for money that are in negotiable form and those that are not in negotiable form. Strictly speaking, a conditional order, or one that is not payable on demand or at sight, or at any fixed or determinable future date, is not negotiable. For example, an order payable 10 days after the arrival of a specified steamer at a specified port, or on the arrival of goods, is not negotiable, because (1) its payment is conditional on the arrival of the steamer or the goods, and (2), since the steamer or the goods may never reach their destination, it is impossible to determine when the order will be paid. It is therefore a draft and not a bill of

exchange. Thus, while every bill of exchange is a draft, every draft is not a bill of exchange.

3. Checks, Sight Bills, and Demand Bills.—An unconditional order for money that is drawn on a bank or on a banking house, and that is payable on demand to the payee or to his order, or to the bearer, is called a **check** (spelled also **cheque** outside of America). The words "on demand" do not generally appear on a check. The drawing of a check presupposes a deposit of funds to the credit of the drawer in the bank or banking house on which it is drawn.

Sight bills and **demand bills** are generally drawn on merchants and others, though they may be drawn on bankers as well. They do not, however, imply or presuppose any deposit of funds to the credit of the drawer, as in the case of checks.

4. Parties to a Bill.—The **drawer** of a bill is the person that draws or makes it.

The **drawee** of a bill is the person to whom it is addressed; that is, the person on whom it is drawn, and who is expected to pay it.

The **acceptor** of a bill is the person that, by writing his name on its face under the word "accepted," engages or agrees that it shall be paid when due. He is usually the drawee. An **acceptance** is the common term given to a bill that is payable at a fixed or determinable time after date or after sight, and that has been accepted by the drawee.

The **payee** of a bill is the person to whom or to whose order it is to be paid. The payee of a bill may be a third person, or the drawer, or the drawee of the bill. If the drawer, the bill is drawn payable to the order of "myself" or "ourselves"; if the drawee, it is drawn payable to the order of "yourself" or "yourselves."

The **holder** of a bill is the person that is in possession of it, either as payee, or as indorsee, or (if payable to bearer) as the bearer of it.

The **bearer** of a bill is the person in possession of a bill that is payable to bearer, whether, by the form of its

indorsement, it has been made so, or whether it is drawn to the order of bearer.

The indorser of a bill is any person that signs his name on it, other than as drawer or acceptor (see *Foreign Exchange*, Part 3, under the heading Indorsements).

The indorsee of a bill is the person to whom a bill is indorsed, or the holder of it, if it is drawn to bearer or is indorsed in blank (see further explanation under Indorsements).

5. Negotiation of Bills.—To negotiate a bill is to transfer it to another for value; that is, to sell it to him or to have it discounted or credited by him.

A bill of exchange has been negotiated when it has been indorsed by the holder and delivered by him to another

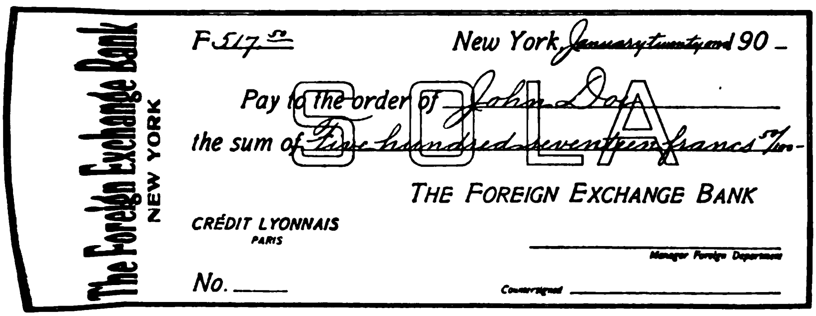


FIG. 1

person for value; but a bill that is payable to bearer may be negotiated by delivery only; that is, without the indorsement of the holder. The indorsement of a bill payable to bearer, however, is generally required in order to permit of the tracing of the several holders.

The delivery of a bill is its transfer from one person to another. The place of delivery is the place where the person (whether payee or indorsee) to whom a bill is transferred receives it. For example, the place of delivery of a bill sent by mail from New York to Hamburg is Hamburg, although it is drawn or indorsed in New York.

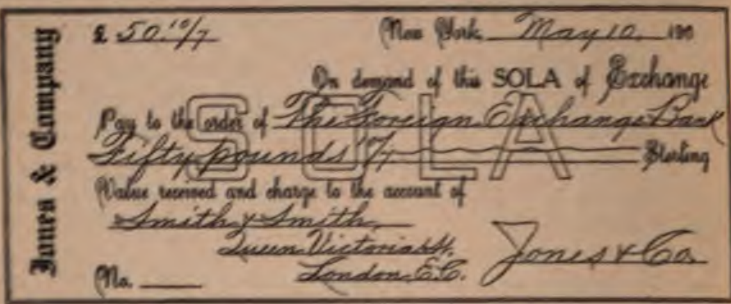
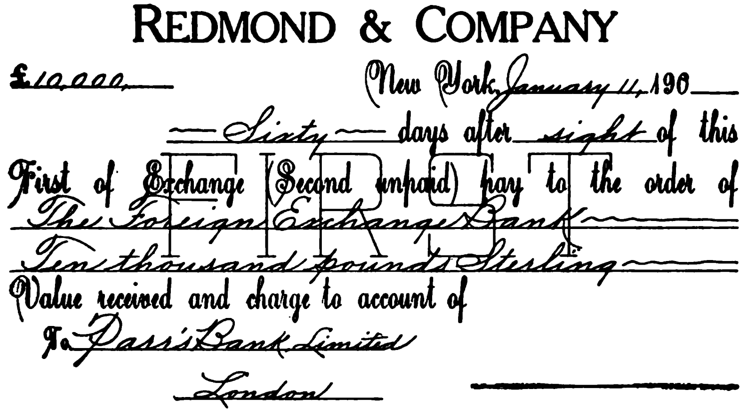

Jones & Company
£ 50 10/7
New York May 10 190
On demand of this SOLA of Exchange
Pay to the order of The Foreign Exchange Bank
Fifty pounds 10/7 Sterling
SOLA
Value received and charge to the account of
Smith & Smith
Queen Victoria St.
London, E.C.
Jones & Co.
No. ___

FIG. 2


The Foreign Exchange Bank
NEW YORK
Rmk 200,000
New York, January 21, 190
DEUTSCHE BANK
BERLIN
ORIGINAL
Against this Original Check (Duplicate unpaid)
Pay to the order of Redmond and Co.
Two hundred thousand Marks
and charge to the account of balance due us.
THE FOREIGN EXCHANGE BANK
Countersigned
Manager Foreign Department
The Foreign Exchange Bank
NEW YORK
Rmk 200,000.
New York, January 21, 190
DEUTSCHE BANK
BERLIN
DUPLICATE
Against this Duplicate Check (Original unpaid)
Pay to the order of Redmond and Co.
Two hundred thousand Marks
and charge to the account of balance due us.
THE FOREIGN EXCHANGE BANK
Countersigned
Manager Foreign Department

FIG. 3

Indorsement is the writing of one's name on a bill of exchange otherwise than as acceptor or drawer. The dif-


REDMOND & COMPANY

£10,000 New York, January 11, 190

Sixty days after sight of this

First of Exchange (Second unpaid) pay to the order of

The Foreign Exchange Bank

Ten thousand pounds Sterling

Value received and charge to account of

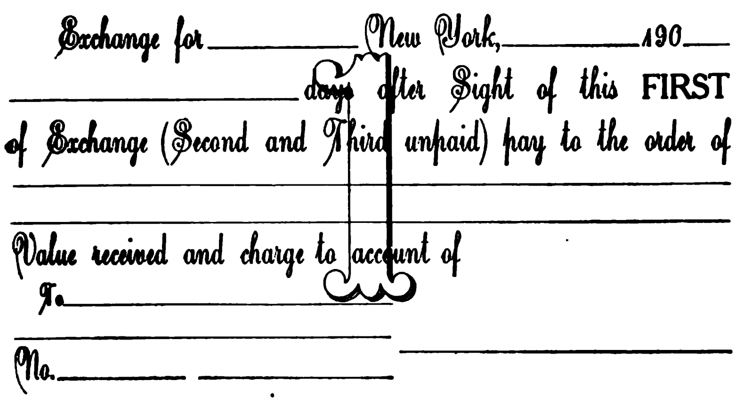
To Parr's Bank Limited

London

FIG. 4

ferent forms of indorsement are explained in *Foreign Exchange*, Part 3.

6. Forms of Bills of Exchange.—Bills of exchange are issued singly or in sets of two or more parts. When issued singly they are called *sola* and are generally so marked;


Exchange for New York, 190

days after Sight of this FIRST

of Exchange (Second and Third unpaid) pay to the order of

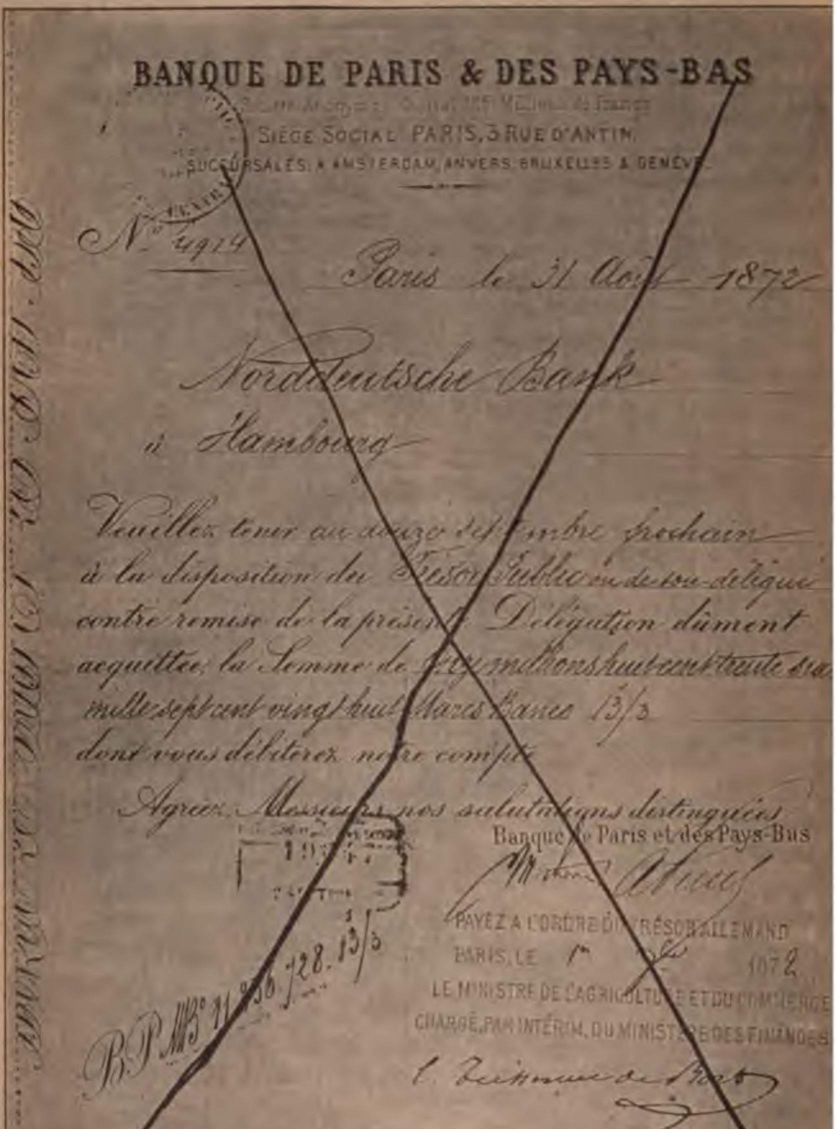
Value received and charge to account of

To

No.

FIG. 5

in Fig. 1 is shown a *sola* check and in Fig. 2 a *sola* bill. Sola checks and bills are rarely used except for small



BANQUE DE PARIS & DES PAYS-BAS

SIÈGE SOCIAL PARIS, 3 RUE D'ANTIN

SUCCURSALES: A AMSTERDAM, ANVERS, BRUXELLES & GENÈVE

N° 4914

Paris le 31 Août 1872

Norddeutsche Bank

à Hambourg

Veuillez tenir au douze septembre prochain à la disposition du Trésor Public ou de son délégué contre remise de la présente Délégation dûment acquittée, la Somme de onze millions huit cent trente six mille sept cent vingt huit Marcs Banco 13/3 dont vous débiterez notre compte

Agréez, Messieurs, nos salutations distinguées

Banque de Paris et des Pays-Bas

PAYEZ A L'ORDRE DU TRÉSOR ALLEMAND

PARIS, LE 1er 1872

LE MINISTRE DE L'AGRICULTURE ET DU COMMERCE CHARGÉ, PAR INTÉRIM, DU MINISTÈRE DES FINANCES

B P Mcs 11.836.728.13/3

Fig. 6

TRANSLATION

BANK OF PARIS AND OF THE NETHERLANDS
Joint Stock Co.
Capital, 125 Million Francs
Head Office: Paris, 3 Rue d'Antin
Branches: Amsterdam, Antwerp, Brussels, and Geneva

No. *4914* PARIS, Aug. 31, 1872

Norddeutsche Bank
in Hamburg

On the twelfth of September next, be good enough to hold at the disposition of the Public Treasury, or of its representative, against the delivery of this Delegation duly receipted, the sum of Eleven Million Eight Hundred Thirty-six Thousand Seven Hundred Twenty-eight Marks Banco 13/3, which debit to our account.

Accept, Sirs, our distinguished salutations,

Bank of Paris and of the Netherlands,
(Signature)

Pay to the order of the German Treasury
Paris, Sept. 1, 1872
The Minister of Agriculture and Commerce
Acting, pro tem. for the Minister of Finance
(Signature)

Good for M. B°. 11,836,728.13/3.

FIG. 7

NOTE.—The *Mark Banco* was a money of account formerly in use in Hamburg, based on silver, and consisted of 16 schillinge and 12 pfennige each. The law fixed the proportion of this currency to the new (present) currency at M. B. 100 = M. 150.

amounts. When issued in sets of two, checks are generally marked *original* and *duplicate*, as shown in Fig. 3. Other bills are generally marked *First* and *Second* (see Fig. 4). When issued in sets of three they are generally marked *First*, *Second*, *Third*, although the words *Original*, *Duplicate*, *Triplicate* are sometimes used instead (see Fig. 5). It will be noticed in these figures that each bill of a set of two or more parts contains reference to the other part or parts. This is essential, for, if it is not done, it is clear that each part becomes a separate bill in the hands of a bona-fide holder.

The reason for issuing bills in sets is to avoid the inconvenience and frequent loss of interest, etc. that would result from delays in their delivery if issued singly. These delays might be due to the loss or miscarriage of the bills in the mail, or to other causes. It is customary to send the

different parts of a set by different steamers, so that, if one is lost or delayed, the other becomes available.

If the holder of a bill loses the sola, or a part or all the parts of a set before it becomes overdue, he may apply to the drawer for a copy. The drawer is obliged to issue such a copy clearly marked *copy*, but he may require of the holder satisfactory security indemnifying him against all persons in case the lost bill is found. The drawer should notify the drawee of the loss and of the issue of the copy or copies. Some persons prefer to issue new bills rather than to give copies.

7. Delegation.—A **delegation** (called also a *letter of delegation*) is a non-negotiable order from one banker or merchant to another for the payment to a specified person, or for the receipt or collection from a specified person, of a specified sum of money. Fig. 6 (of which a translation is given in Fig. 7) is a reduced facsimile of a delegation, covering part of the payment of the French indemnity to Germany at the close of the Franco-Prussian war.

8. Cable.—A **cable**, or **telegraphic transfer**, is an order, sent by submarine cable or other telegraph, for the payment of money. It is evidenced: (1) by the written order of the purchaser or person for whom the transfer is made, addressed to the transmitting bank, requesting the transfer of a specified sum of money by cable to a person whose name and address is stated (see Fig. 8, in which the special clause regarding delays and errors in transmission should be particularly noted); (2) by the acknowledgment or receipt of the transmitting bank, instead of by a bill of exchange (see Fig. 9); (3) by the cable or telegraphic despatch; and (4) by the receipt of the payee given to the drawee or paying bank in duplicate (see Fig. 10).

9. Domiciled Bill.—A **domiciled bill** is a bill that is drawn on one place, but is made payable in another. A bill may be domiciled at a different place from the address of the drawee, although in the same city, or it may be domiciled in another city of the same country or in a city of a different

New York, *Feby 16*, 190

Foreign Exchange Bank:

Please make the following payment by cable:

' to *Parr's Bank, Limited*

dress *London*

account of *Ourselves*

: sum of *£50000* for which we will pay @ *48655* $ *243,275*

together with cost of message ——

…stood that we will not hold you … loss or damage due to any delay … transmission of the message be… control.

Total, $ *243,275*

Signature and Address *Redmond & Co.*

… *must be made in cash or certified check to the order of* THE FOREIGN EXCHANGE BANK *on the day of purchase*

Fig. 8

New York, *Feby 16*, 190

Received from *Redmond & Co.*

of *Two hundred forty-three thousand two hundred seventy-five* Dollars

with costs, as below, a cable transfer of *£50000* at the rate of *48655*

de to *Parr's Bank Ltd London*

Union of London & Smith's Bank Ltd

nt $ *243,275* **The Foreign Exchange Bank**

f cable ——

$ *243,275*

Manager Foreign Department

Fig. 9

London, *Feby 17*, 190

Received of *Union of London & Smith's Bank Ltd*

of *Foreign Exchange Bank NY.*

nt of *Redmond & Co.*

of *Fifty thousand Pounds*

Parr's Bank, Ltd.

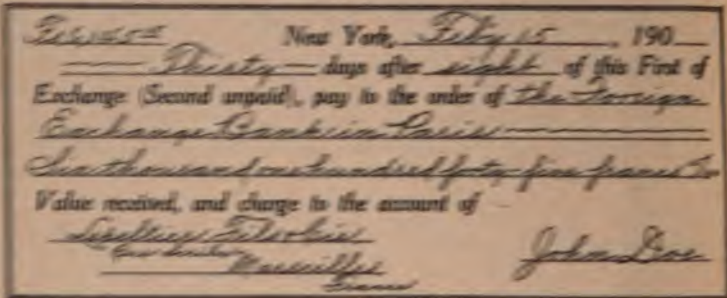
…000

Manager

Fig. 10

country. If the latter is the case, the bill is generally drawn in the currency of the country where domiciled, that is, where payable; as, for example, in the following instances:

1. A bill may be drawn on Marseilles and made payable



[illegible] New York, Feby 15, 190_

Thirty days after sight of this First of Exchange (Second unpaid), pay to the order of the Foreign Exchange Bank in Paris

[illegible]

Value received, and charge to the account of

[illegible]

Marseilles

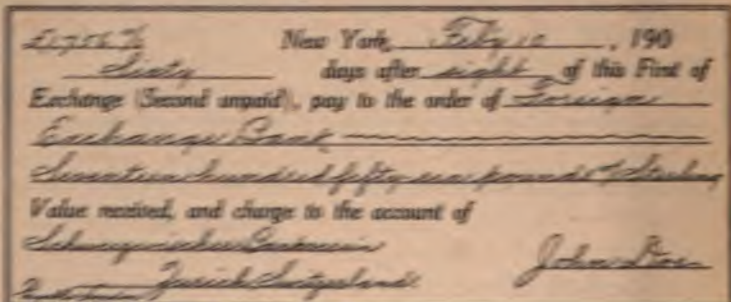
France

John Doe

Fig. 11

in Paris. It is domiciled in Paris, and would generally be drawn in francs.

2. A bill may be drawn on Zurich and made payable in London. It is domiciled in London, and would therefore generally be drawn in sterling.



[illegible] New York, Feby [illegible], 190

Sixty days after sight of this First of Exchange (Second unpaid), pay to the order of Foreign Exchange Bank

[illegible] pounds Sterling

Value received, and charge to the account of

[illegible]

Zurich Switzerland

John Doe

Fig. 12

Sometimes, the bank or office where a domiciled bill is to be paid is specified by the drawer on the bill, and sometimes it is left to the drawee to specify the place of payment when he accepts it (see Figs. 11 and 12).

10. Inland and Foreign Bills.—An **inland bill** is one that is payable in the country or state in which it is drawn. A **foreign bill** is one that is payable in a country or state other than the one in which it is drawn. In America, bills of exchange on all parts of the country are commonly spoken of as *domestic bills*, and those on foreign countries as *foreign bills.*

TIME BILLS

11. Time bills are distinguished as *short bills* and *long bills.* **Short bills** are those which are payable 1, 3, or 5 days after sight, or from 7 days to 30 days after sight or after date. **Long bills** are those which are payable 45, 60, 90, 120, 150, 180 days, etc. after sight or after date, or 2, 3, 4, 5, or 6 months or more after sight or after date. The abbreviations used to distinguish them are ____*d/s*, ____*d/d*, ____*m/s*, ____*m/d*, meaning so many days after sight or after date, and so many months after sight or after date.

In foreign countries, bills are sometimes drawn payable a number of *usances* after sight or after date. By **usance** is meant the customary time, or the time for payment fixed by custom. For example, if the usance between London and Amsterdam is 1 month, bills might be drawn payable "at usance" (= 1 month), "double usance" (= 2 months), or "half usance" (= 15 days). Where the usance is 2 months, double would be 4 months and half would be 1 month.

In foreign countries, bills of exchange are also frequently made payable at a fair or market. In some countries, the law provides that such a bill shall become due the last day of the fair; in others, on the day following the last day.

CLEAN BILLS

12. **A clean bill** is one that has no papers or documents attached to it as collateral security for its acceptance $\frac{\text{and}}{\text{or}}$ payment.

NOTE.— The form $\frac{\text{and}}{\text{or}}$ is used frequently in foreign banking. In this case it means *acceptance and payment*, or *acceptance or payment*.

Clean bills may be divided into *bankers'*, *commercial*, and *miscellaneous bills*.

13. **Bankers' Bills.—Bankers' bills** are those drawn by bankers on their foreign correspondents. They consist of checks and long bills. Bankers' checks are bought by merchants and others for remittance to their correspondents in foreign countries. They are also bought from one another by bankers for remittance to their several foreign correspondents, exactly as domestic banks buy exchange from one another.

Cable transfers are not bills of exchange, for they are not negotiable. They do, however, transfer credit as do bills of exchange, and therefore may be mentioned here. Cable transfers are usually made by bankers, although merchants and others may and do make them when circumstances require. They are bought and sold as are bills of exchange.

Letters of delegation are sometimes used by bankers for transfers where the payee has an account with the drawee or with one of his correspondents, or where payee and drawee are one.

What is known in Germany as the *giro* conto transfer* may be mentioned here, although it is used only for inland transfers. The Reichsbank (the Imperial Bank of Germany) has one or more branches in all the principal cities of Germany. Every German bank and nearly every merchant of importance keeps an account with the Reichsbank. No interest is allowed on balances; but all depositors are given facilities for the transfer of money from one branch to another. A directory

*Pronounced *jeero*.

of depositors is published by the bank; and, i
this, merchants that are depositors usually print
the Reichsbank on their letterheads and billhead
itor in one city wishing to make payment to a
another city requests the Reichsbank to transfer
amount by mail or telegram to the credit of the oth
He either deposits the sum or it is charged to
and he is given a receipt. The bank then instr
ticular branch where the payee deposits to place
to his credit for account of the sender.

14. **Bankers' long bills** are generally drav
days' sight or date, but may be drawn for a shor
time. According to the usage in some countrie
to a great extent take the place of checks in f
actions, so that settlements are required and rer
made by bankers' long bills on London, Paris,
York, etc.; consequently, numbers of them ar
bought by foreign exchange banks. In Americ
are largely issued for the purpose of obtaining f
when so issued they are drawn for large amo
known as *finance bills*.

15. **Commercial Bills.**—Commercial
are those drawn by merchants in one countr
merchants or bankers. These bills are usually d
or at from 1 to 60 days' sight, comparativel
drawn at more than 60 days' sight. They are us
lines of trade—such, for example, as in the to
In this case, many shippers forward the shippin
by mail direct to the consignees and negotiat
bills drawn against them. Clean bills are also d
balances of accounts. Some commercial hous
extensive foreign business find it convenient t
accounts in London and elsewhere, and sometim
their own checks drawn on these banks. There
houses that make a practice of remitting their c
on their local banks. These are negotiated b
through foreign exchange banks like other forei

FORM A

DISBURSEMENTS

£ 415.6/11 Stg. The Harbor, June 190

THREE DAYS after arrival (or upon collection of the freight, if sooner made), of the Sailer Hiawatha *under my command at the port of* Havre *or any other place at which her voyage may terminate,*

I Promise to Pay *to the Order of* Jones & Company *the sum of* Four hundred fifteen pounds 6/11 *British Sterling, in approved* Bankers' Demand Bills on London, *for value received, for necessary disbursements owed by my vessel at this Port, for the payment of which I hereby pledge my vessel and her freight; and I hereby assign to the legal holders of this obligation all my lien and claim against freight, vessel, and owners, with power to take in my name any and all steps necessary to enforce the same; and my consignees at Port of Discharge are hereby instructed to pay this obligation, and deduct the amount thereof from the freight due said vessel; in case of non-payment, the holders shall also be entitled to the benefit of all liens in law, equity, or admiralty, which the master or owners, of the vessel may be entitled to against any part of the cargo or its owners for freight, compress, or other charges on cargo paid by the vessel or master at the port of loading.*

This claim to have priority of payment over all others that may be presented against the said freight and vessel.

My vessel is now lying at the Port of Philadelphia **loaded with** Merchandise **and ready to sail for** Havre.

Signed in Duplicate, *one being accomplished, the other to stand void.*

John Smith

Master of Sailer Hiawatha.

16. Miscellaneous Bills.—Miscellaneous clean bills include all others: such as those of insurance and steamship agents, captains, and others, which are drawn on their principals or representatives; and those of diplomatic and consular representatives, which are drawn on their governments. Under this head may also be mentioned *disbursements notes*, although, being non-negotiable, they cannot strictly be classed with bills of exchange. These notes, however, are collected by banks in the same manner as drafts and bills of exchange. The following will explain their use: The master of a steamship or sailing vessel is obliged to incur expenses at every port he visits. Sometimes, to cover these expenses he draws a clean bill on the owners, and this is generally negotiated as are other clean bills. At other times he gives a Disbursements note, as shown in Fig. 13. This is drawn to the order of the agents, who generally pay the bills for the ship's account, at the port where the expenses are incurred. It is made payable from 1 to 5 days after the arrival of the vessel at the port named in it; in this particular form, the time is 3 days. An examination of the note will show the rights of the agents and subsequent holders in case of non-payment of the note. It is generally customary to require that a certificate of insurance on the ship be attached to the note, as security in case of her loss.

DOCUMENTARY BILLS

17. A **documentary bill** is one to which are attached negotiable shipping documents that are the evidence of the shipment of the merchandise against which the bill is drawn. These documents are attached to the bill as collateral security for its acceptance $\frac{\text{and}}{\text{or}}$ payment.

The drawer of a bill may attach to it one or more invoices or other papers having no negotiable value, or he may attach a full set of documents such as belong to a documentary bill, but in a non-negotiable form. None of these contribute in any way to the security of the banker, because they do not

give him any control over the property represented by them. The bill is therefore practically a clean bill. The forwarding of the papers or documents is merely an accommodation on the part of the banker that purchases or discounts the bill. They should be mailed by the drawer direct to the drawee.

The majority of all commercial bills—that is, bills that are drawn against exports of merchandise, etc.—are documentary bills. In order that the purchaser of such a commercial bill may have good collateral security for it he must obtain from the shipper or drawer all documents necessary to give him control of the merchandise for which the bill has been drawn, and insurance on it sufficient for his protection in case of loss or damage. The necessary documents consist of some or all of the following, according to the kind of merchandise, and the usage and laws in respect to it of the country to which it is consigned:

1. A full set or full sets of bills of lading.

2. A certificate or certificates of insurance fully covering the value of the bill, if the goods are insured by the shipper; or, if they are insured by the consignee, as is sometimes the case, a written statement to that effect by the shipper.

3. A hypothecation power.

4. Certificates of weight, inspection, origin, or health, according to the requirements of the particular line of trade in the country to which the goods are consigned.

5. An invoice or invoices, plain or consular, according to requirements.

18. **Bill of Lading.**—A bill of lading, the sign for which is B/L, is the receipt of a railway, steamship, or other transportation company for goods delivered to it for transportation, together with a contract to make proper delivery of these goods for a consideration. As known to the foreign-exchange banker, there are two general kinds; namely, the *through*, or *export*, *bill of lading*, and the *ocean bill of lading*. Each company has its own form, so that there is an unfortunate lack of uniformity among them. Fig. 14 shows a through bill of lading issued by a railroad in an inland center.

Fig. 15 shows an ocean bill of lading issued by a steamship company. Foreign bills of lading are generally issued in sets of two, three, or more copies, and the exact number is always stated on them, as shown in the figure. A copy called and marked the *captain's copy* and marked *not negotiable*, is generally made out and retained by the shipping agents to aid in identifying the shipment. Another copy called and marked the *shipper's copy* and marked *not negotiable* is sometimes given to the shipper, and may be required by him. By a *full set* is meant all of the negotiable bills of lading that belong to a given shipment and that cover the particular bill of exchange to which they are attached. The captain's and shipper's copies are not part of the full set.

19. To be valuable as **collateral security** for a bill of exchange a bill of lading must be in negotiable form. This requires that it should be drawn deliverable to the order of the shipper (and be indorsed by him) or to that of a third party other than the consignee. It is preferable and customary to draw it to the order of the shipper. The indorsement of a bill of lading should properly be written across the back, and it is usually made in blank. A bona-fide holder of a bill of lading so indorsed acquires a lien on the merchandise covered by it. When a bill of lading is drawn or indorsed to the order of a bank, it is customary for the bank to indorse it, "deliver without recourse to—— ," or "interested as bankers only." The term *without recourse* means that the bank by its indorsement merely assigns title to the property covered by the bill of lading. This is done because it is not customary for a bank to assume responsibility for merchandise, or liability for any legal process that may arise in connection with it. The bank's interest is limited to the protection afforded by the merchandise as collateral security for the acceptance and/or payment of the bill of exchange.

20. **Examination of a Bill of Lading.**—In handling a bill of lading the banker should examine it and note the following:

1. Whether the bill is properly drawn; that is, whether it gives the name of the shipper, the name of the steamship or sailer, or (if an inland bill of lading) the name of the ocean line or steamship by which the goods are carried; the destination; a description of the goods, their quantity and marks; to whom or to whose order they are to be delivered; the number of copies issued; and whether it is signed and of recent dating.

2. Whether a full set has been delivered to him and whether the copies are alike.

3. Whether each part of a set is properly indorsed.

All this can be done very rapidly by one experienced in the business. Merchandise from inland points that requires official inspection or weighing at the seaboard is shipped on an inland bill of lading that is exchanged at the seaboard for an ocean bill of lading.

21. Charter Party.—A **charter party** is an agreement or contract between the owner or master of a vessel and her charterer (also called *freighter*), whereby the former lets that vessel to the latter for a specified voyage, and on specified terms. When a cargo against which a bank makes advances is shipped under a charter party, the charter party should be attached, with the bills of lading and other documents, to the bill of exchange. A general form of charter party is shown in Fig. 16.

22. Marine Insurance.—The contract of a through bill of lading, subject to certain conditions named in it, makes the issuing railroad responsible for damage to or loss of the merchandise described in it, until the delivery of the merchandise to the transportation company at the seaboard. The contract of the ocean bill of lading and of the ocean part of the through bill of lading gives no such protection. Hence, what is known as **marine insurance** has become necessary. The object of marine insurance is to indemnify the insured—whether merchant, ship owner, or other interested person—against damage to, or the partial or total loss of, the thing or interest insured. There are, however, numerous

A TRUE COPY OF THE ORIGINAL CHARTER PARTY IN ______ POSSESSION

This Charter Party, made and concluded upon in ______ the ______ day of ______ 19__. Between ______ of the ______ of ______ of the burthen of ______ Tons or thereabouts, register measurement, now lying ______ of the first part, and ______ of the second part, **Witnesseth,** that the said party of the first part agrees in the freighting and chartering of the whole of the said vessel (with the exception of the cabin ______ and necessary room for the crew, and storage of provisions, sails, and cables) unto said party of the second part, for a voyage from ______

______ on the terms following. The said vessel shall be tight, staunch, strong, and every way fitted for such a voyage, and receive on board during the aforesaid voyage, the merchandise hereinafter mentioned. The said party of the second part doth engage to provide and furnish to the said vessel ______

______

______ and to pay to said party of the first part, or agent for the use of said vessel during the voyage aforesaid, ______

______ It is agreed that the lay days for loading and discharging shall be as follows (if not sooner despatched) commencing from the time the vessel is ready to receive or discharge cargo ______

______ And that for each and every day's detention by default of said party of the second part, or agent, ______ per day, day by day, shall be paid by said party of second part, or agent, to the said party of the first part, or agent. The cargo or cargoes to be received and delivered alongside, within reach of the vessel's tackles, ______

______ A commission of ___ per cent. on the gross amount of this Charter is due from the vessel to ______ upon the signing hereof.

To the true and faithful performance of all and every of the foregoing agreement, dangers of the Seas, Fires, and Navigation, of every nature and kind, always excepted, ______ the said ______ do hereby bind ______ heirs, executors, administrators, and assigns, and also the said vessel's freight, tackle, and appurtenances, and the merchandise to be laden on board, each to the other, in the penal sum of estimated amount of this charter.

In Witness Whereof, ______ hereunto set ___ hand the day and year first above written.

SIGNED IN THE PRESENCE OF

FIG. 16

opportunities for damage to merchandise or loss of it, while on piers or lighters, or in temporary storage, or during the loading and unloading of a vessel, or in transfers from one dock or warehouse to another. These risks are not always covered by the policy issued, but they may be covered by a form of policy known as a **floater.** This fact is frequently overlooked by shippers, who, in ignorance of the facts, suppose themselves to be fully covered when actually they are only partly covered. Instances of this are found in cases of litigation following the sinking of lighters and the burning of docks and piers containing merchandise for shipment or merchandise just discharged, etc.

23. In accepting the relative documents as collateral security for bills of exchange, the banker should be in a position to know from an examination of them the extent of the protection afforded by the policy or certificate of insurance, as well as the amount of insurance. This is necessary, although the banker practically buys documentary bills of exchange from those persons only in whose standing he has confidence.

As an illustration it is only necessary to suppose a possible combination of events, although an improbable one; namely, the bankruptcy of the drawer of a bill after he has sold it to a banker; the non-acceptance of the bill by the drawee; and the total loss of the collateral merchandise under conditions not covered by the policy or certificate of marine insurance attached to the bill.

24. In America, it has become the general custom among marine insurance companies to issue what is known as the *open policy*, one form of which is shown in Fig. 17. Its objects are to avoid the necessity of writing a separate policy for each shipment and at the same time to keep the assured constantly covered. The open policy is issued either for 1 year or subject to cancelation on 30 days' notice by either party to it. No limit is generally placed on the amount of the insurance. Each shipment is entered in a record, which provides for the number of the policy and all other

Cargo (*No.*)

FEDERAL INSURANCE COMPANY

INCORPORATED UNDER THE LAWS OF NEW JERSEY

CHUBB & SON, MANAGERS,
5 & 7 South William Street, New York

ON ACCOUNT OF

Sum Insured,

$

In case of loss, to be paid to

Do make Insurance and cause **to be Insured**, lost, or not lost at and from

upon all kinds of lawful goods and merchandises, laden or to be laden on board the good whereof is master for this present voyage, or whoever else shall go for master in the said vessel, or by whatever other name or names the said vessel, or the master thereof, is or shall be named or called.

Beginning the adventure upon the said goods and merchandises from and immediately following the loading thereof on board of the said vessel, at as aforesaid, and so shall continue and endure until the said goods and merchandises shall be safely landed at as aforesaid. AND it shall and may be lawful for the said vessel, in her voyage, to proceed and sail to, touch and stay at any ports or places, if thereunto obliged by stress of weather or other unavoidable accident, without prejudice to this insurance. The said goods and merchandises, hereby insured, are valued (premium included) at

Touching the adventures and perils which the said ASSURERS are contented to bear, and take upon themselves, in this voyage, they are of the *seas, men-of-war, fires, enemies, pirates, rovers, assailing thieves, jettisons, letters of mart and countermart, reprisals, takings at sea, arrests, restraints and detainments of all kings, princes or people, of what nation, condition, or quality soever, barratry of the Master and Mariners*, and all other perils, losses, and misfortunes, that have or shall come to the hurt, detriment, or damage of the said goods and merchandises, or any part thereof. AND in case of any loss or misfortune, it shall be lawful and necessary to and for the assured, his or their factors, servants, and assigns, to sue, labor, and travel for, in and about the defense, safeguard, and recovery of the said goods and merchandises, or any part thereof, without prejudice to this insurance; nor shall the acts of the insured or insurers, in recovering, saving, and preserving the property insured, in case of disaster, be considered a waiver or acceptance of an abandonment; to the charges whereof, the said ASSURERS will contribute according to the rate and quantity of the sum herein insured; having been paid the consideration for this insurance, by the assured, or his or their assigns, at and after the rate of

And in case of loss, such loss to be paid in thirty days after proof of loss, and proof

any one time, unless otherwise agreed
pon as known to assured.
t the place such proofs are taken.

Cargo on deck free from claim for loss by w
Warranted by the assured, that vessels to b
for Foreign Ports, are to be loaded under th
Assurers, and his certificate as to their proper l
Warranted by the assured free from clai
commotions, riots or, by the acts of officers o
before or after declaration of war.

…shall have made any insurance … subsequent assurance had been made. And in case the [assured shall have made any] insurance (other than fire) upon the premises aforesaid, of date the same day as this policy, it shall be deemed simultaneous herewith; and the said ASSURERS shall not be liable for more than a ratable contribution in the proportion of the sum by them insured to the aggregate of such simultaneous insurance. IT IS ALSO AGREED, that the property be warranted by the assured free from any charge, damage or loss, which may arise in consequence of a seizure or detention, for or on account of any illicit or prohibited trade, or any trade in articles contraband of war. AND WARRANTED by the assured free from any liability for merchandise in the possession of any carrier or other bailee, who may be liable for any loss or damage thereto; and for merchandise shipped under a Bill of Lading containing a stipulation that the carrier may have the benefit of any insurance thereon; and that any insurance granted herein, shall not cover where any carrier or other bailee has insurance (whether prior or subsequent in date to this policy) which would attach if this policy had not been issued; and that any insurance against fire granted herein shall not cover where the assured has fire insurance (whether prior or subsequent in date to this policy) which would attach if this policy had not been issued.

WARRANTED not to abandon in case of capture, seizure, or detention, until after condemnation of the property insured; nor until ninety days after notice of said condemnation is given to the ASSURERS. Also warranted not to abandon in case of blockade, and free from any expense in consequence of capture, seizure, detention, or blockade, but in the event of blockade, to be at liberty to proceed to an open port and there end the voyage.

Memorandum. It is also agreed, that bar, bundle, rod, hoop, and sheet iron, wire of all kinds, tin plates, steel, madder, sumac, wickerware and willow (manufactured or otherwise), salt, grain of all kinds, tobacco, Indian meal, fruits (whether preserved or otherwise), cheese, dry fish, hay, vegetables and roots, rags, hempen yarn, bags, cotton bagging, and other articles used for bags and bagging, pleasure carriages, household furniture, skins and hides, musical instruments, looking glasses, and all other articles that are perishable in their own nature, are warranted by the assured free from average, unless general; hemp, tobacco stems, matting and cassia, except in boxes, free from average, under *twenty per cent.*, unless general; and sugar, flax, flaxseed, and bread, are warranted by the assured free from average under *seven per cent.*, unless general; and coffee in bags or bulk, pepper in bags or bulk, and rice, free from average under *ten per cent.*, unless general.

WARRANTED by the insured, free from damage or injury from dampness, change of flavor or being spotted, discolored, musty or mouldy, except caused by actual contact of sea-water with the articles damaged, occasioned by sea perils. In case of partial loss by sea damage to dry goods, cutlery or other hardware, and on shipments from ports and places East of the Cape of Good Hope, on gunny cloth, gunny bags or hides, the loss shall be ascertained by a separation and sale of the portion only of the contents of the packages so damaged, and not otherwise; and the same practice shall obtain as to all other merchandise, so far as practicable. Not liable for leakage on molasses or other liquids, nor for breakage, unless occasioned by stranding or collision with another vessel. And it is also agreed that in case of loss or damage to any part of a machine, consisting, when complete for sale or use, of several parts, the insurers shall only be liable for the insured value of the part lost or damaged.

If the voyage aforesaid shall have been begun and shall have terminated before the date of this Policy, then there shall be no return of premium on account of such termination of the voyage.

Either party at liberty to cancel upon giving __________ written notice to that effect, but without prejudice to any risk pending at the termination of that period.

In Witness Whereof, the said FEDERAL INSURANCE COMPANY has caused this policy to be signed by its President at Jersey City, N. J., but it shall not be valid until countersigned by CHUBB & SON, Managers.

($__________) ____________________ *Dollars*

____________________ President

Countersigned this ______ day of ______ 190__ ____________________ Managers

The Assurers not to be liable for more than ______ Risks applicable ther[e] upon at time of indorsement.

Proof of loss to be authenticated by the Agent of the ASSUR[ERS]

$ ______

…ge, or exposure.
…from the ports of New York, Boston, Philadelphia, Baltimore, or San Francisco
…Surveyor of the Board of Underwriters, or of a Surveyor appointed by the
…thiness obtained, or the insurance under this policy to be void.
…pture, seizure, detention or destruction, by, or arising from hostile forces, civil
…ting in the name of belligerents, or in pursuing war-like operations whether

FIG. 17

§ 22

RISK No.	POLICY No.	CERTIFICATE No.	DATE OF BILL		STEAMER	VOYAGE

NUMBER OF PACKAGES AND DESCRIPTION OF GOODS	CONDITIONS	ASSURED	AMOUNT INSURED	RATE	PREMIUM		REMARKS

Fig. 18

FORM 5

ORIGINAL

CERTIFICATE OF INSURANCE

IT IS HEREBY UNDERSTOOD AND AGREED, that in all cases of Loss or Damage happening the interest insured under this Certificate, the same shall be reported promptly to the INSURANCE COMPANY, Limited, Liverpool, as soon as known.

Marks and Nos.

$\$$ ____ No. ____

FEDERAL INSURANCE COMPANY

CHUBB & SON, Managers

5 AND 7 SOUTH WILLIAM STREET, NEW YORK

ORIGINAL AND DUPLICATE ISSUED
ONE OF WHICH BEING ACCOMPLISHED
THE OTHER TO STAND NULL AND VOID

NEW YORK, ____ *190* ____

This is to Certify, *That on* ____ *this Company insured under Policy No.* ____ *for* ____ *the sum of* ____ *Dollars in Gold, on* ____ *valued at* ____ *shipped on board of the* ____ *at and from* ____

and it is hereby understood and agreed, that in the case of loss, such loss is payable to the Order of ____ *on surrender of this Certificate.*

This Certificate represents and takes the place of the Policy, and conveys all the rights of the Original Policy-holder (for the purpose of collecting any loss or claims), as fully as if the property was covered by a special Policy direct to the holder of this Certificate, and free from any liability for unpaid premiums.

Exd. ____ ____ *Managers*

IT IS HEREBY AGREED, that any loss or claim under this Certificate, shall be paid in Sterling, at the offices of THE SEA INSURANCE COMPANY, Limited, Exchange Buildings, Liverpool, at the rate of Four Dollars and ninety-five cents ($\$4\frac{95}{100}$) Gold to the Pound Sterling. Claims to be adjusted according to the usages of Lloyds, but subject to the conditions of the Policy and Contract of Insurance.

NOTICE.—To conform with the Revenue Laws of Great Britain, in order to collect a claim under this Certificate, it must be stamped within ten days after its receipt in the United Kingdom.

ecessary information, as shown in Fig. 18. A pass book uled to cover what is necessary from this record is given ach customer insured. This pass book is filled out by the ustomer and is sent by him to the insurance company, and rom the pass book the company makes its entry in the ecord. Under an open policy an importer may cover his nportations as readily as the exporter does his shipments, he difference between the two being that the importer makes he entries for each invoice as soon as he receives it from broad, while the exporter does so at the time of shipment. At the end of each week or month, a statement of the preniums charged on the insurance thus effected is sent to the nsured.

It is customary for marine-insurance companies to issue what are known as *certificates of insurance*, as shown in Fig. 19. For use in connection with banking, these certificates should be payable to the order of the shipper, and should be indorsed by him in blank.

25. Except in the case of shipments made under comnercial letters of credit, insurance is generally placed by the hipper. Sometimes, however, the consignee finds that he in insure to better advantage than the shipper. In such ises, the consignee or drawee advises the shipper or drawer iat he has insured the goods. This fact is sometimes ertified by the agents of the insurance company that has isured the goods; at other times, the shipper or drawer ttaches a slip to the bill of exchange having the words insured abroad" or "insured by consignees" or words to hat effect. From the standpoint of the banker that purchases documentary bill of exchange, it is not desirable that the nsurance should be placed by the consignee, for his collateral ecurity is incomplete without the certificate of insurance lrawn to the order of the shipper or drawer of the bill and y him indorsed in blank exactly as in the case of the bill of ading. In the case of customers of high standing, however, his is very frequently allowed by bankers without prejudice o the bill.

Registered Mail. No. [illegible]

FEDERAL INSURANCE COMPANY,

Incorporated under the Laws of New Jersey.

Chubb & Son, Managers,

5 & 7 South William Street, New York.

By this Policy of Insurance,

Does Insure ______________________________

For account of ______________________________

In case of loss to be paid to ______________________________

On shipments by REGISTERED MAIL within the United States, or between the United States and the Dominion of Canada, Kingdom of Great Britain, or Continent of Europe.

On Bonds, Coupons, Bank Notes, Legal Tenders, Certificates of Stock, or other Securities or Valuables.

Covers ALL RISKS from the time of deposit and registration at the Post Office until delivered at the place of address,

SUBJECT TO THE FOLLOWING CONDITIONS:

1st.—That this insurance shall attach only upon notification of the amount or value mailed by or to the assured being given to Chubb & Son, Managers; said notification to be given prior to known loss, by messenger, telegram, or mail, on the day of mailing and registration of the Package insured.

2d.—That all property insured under this policy shall be enclosed in a strong envelope or wrapper, well secured and in all cases sealed with wax.

3d.—That the property insured under this policy shall be valued at the sum insured, provided the same does not exceed two per cent. above its market value on the day of mailing, and that in the event of loss the liability under this policy shall not be greater than market value with two per cent. added.

4th.—That it is understood and agreed that this policy of insurance does not cover the loss by theft committed by one of the employees of the assured, or of the person or persons to whom or by whom the property was mailed.

5th.—In case of loss, such loss to be paid within fifteen days after proof of loss and proof of interest; and in case of loss or misfortune, it shall be lawful and necessary to and for the assured to sue, labor and travel for, in and about the defense, safeguard and recovery of the property without prejudice to this insurance; and upon the payment of any loss under this policy, the assured, or assigns, in consideration thereof, agree to convey to the said Federal Insurance Company, the unencumbered title in the property lost as absolute owners thereof, and to take all necessary measures in behalf, and at the risk and expense of the said Federal Insurance Company, for the recovery, release or replacement of said property, where possible.

6th.—It is warranted by the assured that shipments of currency, bank or legal tender notes, shall not exceed Ten Thousand Dollars in each registered package.

7th.—It is warranted by the assured that the packing and sealing of the package containing the property insured hereunder shall be witnessed by two adults, one of whom shall have charge of same until deposited and registered at the post office.

8th.—It is agreed that no suit or action against this Company, for the recovery of any claim by virtue of this policy, shall be sustained in any court of law or equity unless such suit or action shall be commenced within six months [illegible] after the date of mailing of the package claimed to be lost, and that the lapse of said period shall be a bar to any such suit or action.

9th.—This policy expires one year from its date, during which period either party may cancel same by giving fifteen days' written notice thereof to the other, but said expiration or cancellation shall be without prejudice to any risk then pending.

10th.—Rate of premium as agreed, and premium due and payable at the end of each month.

In Witness Whereof, the said FEDERAL INSURANCE COMPANY has caused this policy to be signed by its President at Jersey City, N. J., but it shall not be valid until countersigned by Chubb & Son, Managers.

President.

Countersigned this ________ day of ________ 190 ______________________ Managers.

FIG. [illegible]

26. Fig. 20 shows a form of policy covering shipments by registered mail. These shipments consist of stocks, bonds, coupons, bank notes, legal tenders, and other securities or valuables.

Each certificate of insurance should be examined by the banker to ascertain that the amount is sufficient to cover the amount of the bill of exchange to which it is attached, that it is drawn to the order of the shipper and properly indorsed, that it is signed and dated, and that it properly covers the shipment.

27. Hypothecation.—In order that no question may arise as to the rights of the bank as a purchaser or holder of a documentary bill, it is customary to require of the drawer what is called a **hypothecation.** This is a contract or pledge given by the drawer to the bank. By it, the drawer or indorser authorizes the bank, in consideration of the purchase of his documentary bill or bills, to dispose of the merchandise represented by the attached bills of lading, in the event of their non-acceptance $\frac{\text{and}}{\text{or}}$ non-payment, agreeing to reimburse the bank for all losses, costs, and expenses incidental thereto. Three specimens of forms used are shown in Figs. 21 (*a*) and (*b*), 22, and 23. Fig. 21 (*a*) and (*b*) is a general hypothecation, and is given to a bank to cover *all* bills of exchange that may be sold to it. When a general hypothecation has not been given, special hypothecations are required, and one is attached to each bill of exchange. Fig. 22 shows a special hypothecation for use when the goods are to be delivered on acceptance. Fig. 23 shows a special hypothecation for use when the goods are to be delivered on payment.

28. Certificates and Invoices.—Illustrations of some of the forms of certificates that are attached to certain American documentary bills will explain their use. Fig. 24 is an export grain-inspection certificate; Fig. 25 is a weigher's certificate; Fig. 26 is a certificate of origin. A consular invoice or certificate is the statement or invoice of goods

Hypothecation Certificate

Know All Men By These Presents, That __________, the undersigned, in consideration of the fact that The Foreign Exchange Bank of New York may, from time to time, purchase from __________ bills of exchange having negotiable shipping documents for merchandise attached as collateral security for their acceptance $\frac{\text{and}}{\text{or}}$ payment, and for other valuable considerations, do hereby agree with the said Foreign Exchange Bank and with their agents or correspondents, and with the successors of either or both, that the said banks, in addition to all rights created by the circumstances, shall have the following rights, and that the undersigned will do and perform each and all of the following matters:

1. All negotiable bills of lading applicable to the said bills of exchange shall be lodged with the said Foreign Exchange Bank, or with its correspondents as collateral security for the acceptance $\frac{\text{and}}{\text{or}}$ payment of the said bills of exchange.

2. The said banks shall have a lien upon all property covered by or described in the said bill of lading, held by them as collateral security for the acceptance $\frac{\text{and}}{\text{or}}$ payment of each and all of the said bills of exchange.

3. The said banks may, at their discretion and at the expense of the undersigned, insure the property forming the said collateral security, if it is not already insured, and the said banks are not in possession of the evidence that such insurance is in negotiable form. The said banks may also sell as much of the said property as they may deem necessary to cover premiums, expenses, freight, duties, commissions, and all charges, and they shall be held accountable for such sales and for all disbursements in such manner only as is usual in such cases.

4. The said banks may take a conditional acceptance of such bills, if the condition is one of the delivery of the relative documents to the acceptors (including acceptors for honor) against payment at maturity, or under discount if before maturity.

5. In case of non-acceptance of any of the said bills, or of their non-payment (if sight bills) on presentation, the undersigned, immediately on receipt of advice to that effect and statement of account, will pay to the said Foreign Exchange Bank, or to its order, the full

FIG. 21 (a)

amount of such bills, together with all charges incidental to their non-acceptance or non-payment, and interest from date of purchase to that of such payment, notwithstanding the lien of the said bank upon the relative merchandise. And it is furthermore agreed that the written statements or accounts of the said banks as to all charges, commissions, interest, and expenses shall be accepted by the undersigned as sufficient evidence of the correctness of such disbursements and charges.

6. If, at any time, in the discretion of the said banks, it shall be deemed advisable, for the purpose of securing the acceptance $\frac{\text{and}}{\text{or}}$ payment of the said bills of exchange, either to surrender the relative bills of lading against brokers' engagements or to offer the merchandise represented by the said bills of lading or any part of it for sale, either at public auction or private sale the said banks are hereby authorized to do in all respects as they would do were they the direct consignees of the goods, and to charge all expenses, including commission for sale and guaranty, as is usual in such cases. The said banks furthermore shall be at liberty to apply the net proceeds, after deducting all charges of every description, commissions and interest, in or toward the payment of the bills of exchange for account of Whom It May Concern; and it is agreed that all accounts of sales and expenses rendered by the said banks shall be accepted by the undersigned as sufficient evidence that the transactions have been effected and the expenditures made as stated. If the net proceeds do not recoup the said banks for the said bills, together with interest and costs, it is furthermore agreed that the undersigned will pay to the said The Foreign Exchange Bank or to its order the amount of the deficiency on receipt of the said statement of account.

7. If any of the documents aforesaid be surrendered by the said banks before the maturity of any of the bills drawn against them, it is understood that the rate of discount to be allowed shall be as follows:

(*a*) For the United Kingdom (Great Britain and Ireland), one-half of one per cent. per annum above the then advertised rate of interest for short deposits of the leading Joint Stock Banks in London.

(*b*) For other Countries, the usual Retirement rate of Discount, which, in Continental Countries generally, is the Bank rate.

8. It is further understood that these presents constitute a continuing agreement applying to all future as well as to existing transactions between the undersigned and the said Foreign Exchange Bank and their correspondents elsewhere.

____

Dated__________the__________day of__________190

Fig. 21 (*b*)

We have this day sold to THE FOREIGN EXCHANGE BANK, NEW YORK, Bill of Exchange [illegible]

on ____________________________ for ________________

against a shipment of ________________________ per s/s ________________

as per Bills of Lading to order herewith.

Our agreement with THE FOREIGN EXCHANGE BANK, NEW YORK, or its agents, is that, if the same be accepted, the Bills of Lading may then be given up to the acceptors. This is in no wise, however, to prejudice their claims upon us should the Bill not be paid at maturity.

In the event of the non-acceptance of the above Bill, the said THE FOREIGN EXCHANGE BANK, or its agents, are hereby authorized to sell the above described merchandise at discretion as to time and manner, and for our account and sole risk, and to apply the proceeds in or toward the payment of the said Bill (plus commission, charges, etc.), and in case of any deficiency we hereby agree to pay same ON DEMAND.

The above shipment is fully insured in ____________________ and we hereby agree in case of loss that the said insurance shall be held for the benefit of the said THE FOREIGN EXCHANGE BANK, and applied toward the payment of the above Bill of Exchange.

It is hereby understood and agreed that any action taken under this agreement by the said THE FOREIGN EXCHANGE BANK, or its agents, shall be for our account and sole risk, and shall in no case be construed as prejudicing their claims against us as drawers of the said Bill, in case of the default of the acceptors to pay the same at maturity.

____________________ the ________ day of ____________ 190___

Fig. 22

We have this day sold to THE FOREIGN EXCHANGE BANK, NEW YORK, Bill of Exchange

on ____________________________ for ________________

against a shipment of ________________________ per s/s ________________

as per Bills of Lading to order herewith.

Our agreement with THE FOREIGN EXCHANGE BANK, NEW YORK, or its agents, is that the above documents are lodged as collateral security for the acceptance and payment of the said Bill, and they are hereby authorized, in case of non-acceptance or non-payment, to sell the merchandise at discretion as to time and manner, and for our account and sole risk, and to apply the proceeds in or toward the payment of the said Bill (plus commission, charges, etc.), and in case of any deficiency we agree to pay the same ON DEMAND.

It is further understood and agreed that the said THE FOREIGN EXCHANGE BANK, or its agents, have the option to surrender the documents hereby hypothecated, without prejudice to their claim on us, upon satisfactory bankers' guarantee.

The above shipment is fully insured in ____________________ and we hereby agree in case of loss that the insurance shall be held for the benefit of the said THE FOREIGN EXCHANGE BANK, and applied toward the payment of the said Bill of Exchange.

If the documents hereby hypothecated are surrendered against payment of this Bill before maturity, the allowance of discount to the acceptor is to be as follows: At the rate of one-half per cent. per annum above the advertised rate for short deposits of the leading Joint Stock Banks in London, if the Bills are paid in the United Kingdom of Great Britain and Ireland; or at the retirement rate of discount for such Bills in the country where payable.

____________________ the ________ day of ____________ 190___

Fig. 23

No. 8500 Bushels and —— Pounds

Produce Exchange Grain Inspection

New York, *Nov. 11,* *190*

I hereby Certify, *that I have Inspected* *Eighty-five hundred* —— *Bushels and* —— *Pounds of* *Number two Corn* *Put on board the* *S/S* — *according to the present standard of the* **NEW YORK PRODUCE EXCHANGE.**

Stowed In Hold # ——

For acc't of ______ NAME OF SHIPPER ______ INSPECTOR-IN-CHIEF

FIG. 24

ELEVATING COMPANY

ROOM 0000

New York Produce Exchange Building

New York, *Nov. 11,* *190*

I hereby Certify, *That I have superintended the delivery of* *8500* *bushels* *#2 mixed corn*

delivered to *S/S*

for ______, *and that the said* *corn* *was in prime shipping order and condition, and was correctly weighed and delivered.*

______ *Superintendent*

FIG. 25

shipped, sworn to before a consul by the shipper. Fi
and 28 are forms of an American consular invoice, wh
required in America on all imports from foreign cou
Fig. 29 shows the form of consular certificate as to cu
value, which is required to accompany the consular i
when made out in a fluctuating currency. Plain invoic
not generally required by foreign countries on export
consular invoices are frequently required to be attached

United States of America

State of New York, City and County of New York} *ss:*

________________, a Notary Public by Letters Patent un
Great Seal of the State of New York, commissioned and duly qu
residing in the City of New York, in the State aforesaid, do
certify, attest, and make known that on the day of the date
before me personally appeared

____

who being by me duly sworn according to law, deposes and says
is__________ the firm of__________ who has ship
the steamship__________ on the________ day of________
for______________________________

that said__________ is of the growth or product of the United
of America.

In Testimony whereof, said deponent has hereun
scribed his name, and I, Notary, have hereunto set m
and affixed my seal Notarial this______ day of______

Notary P

Fig. 26

bill. Sometimes, these certificates and consular invoic
sent by the drawers direct to the drawee; but wheneve
are necessary in order to obtain possession of the g
they should be made part of the documents.

The consuls of the different countries are generall
informed in regard to the certificates required in
respective countries.

(Form No. 140)

Consular Certificate

I, the undersigned, Consular Agent of the United States of America, do hereby certify that on this ________ day of ____________, A. D. 190 the invoice described in the indorsement hereof was produced to me by the signer of the annexed declaration.

I do further certify that I am satisfied that the person making the declaration hereto annexed is the person he represents himself to be, and that the actual market value or wholesale price of the merchandise described in the said invoice in the principal markets of the country at the time of exportation is correct and true, excepting as noted by me upon said invoice, or respecting which I shall make special communication to the proper authorities.

I further certify ____________

____

____

____

Witness my hand and seal of office the day and year aforesaid.

Received ________, equal to $2.50, U. S. Gold.

____

American Consular Agent

(Form No. 139)

DECLARATION OF OWNER OR HIS DULY AUTHORIZED AGENT COVERING GOODS SHIPPED WITHOUT SALE.

I, the undersigned, do solemnly and truly declare that I am the ________ of the merchandise in the within invoice mentioned and described; that the said invoice is in all respects correct and true, and was made at ____________, whence said merchandise is to be exported to the United States of America; that said invoice contains the actual market value or wholesale price of the said merchandise at the date hereof in the principal markets of ____________; that said actual market value is the price at which the merchandise described in the invoice is freely offered for sale to all purchasers in said markets, and that it is the price which I would have received, and was willing to receive, for such merchandise sold in the ordinary course of trade in the usual wholesale quantities, and that it includes all charges thereon and the actual quantity thereof, and that no different invoice of the merchandise mentioned in the said invoice has been or will be furnished to any one.

I further declare that it is intended to make entry of said merchandise at the port of ____________ in the United States of America.

I further declare ____________

Dated at ____________, this ________ day of ____________, 190__

Not Purchased by Importer

Invoice No. ____________

Issued in {Triplicate / Quadruplicate

Certified ____________

AMERICAN CONSUL SERVICE
AT
PENANG, S. S.

Date ____________, 190

Consignor ____________

Consignee ____________

Name of Vessel ____________

Port of Shipment ____________

Port of Arrival ____________

Port of Entry ____________

Value ____________

Contents ____________

CONSULAR NOTATIONS
(To be filled in by Consular Officer)

Custom-House Indorsement

No. ____________

Importer ____________

Vessel ____________

From ____________

Arrived ____________

KIND OF ENTRY

____

Marks, Quantity, and Contents:

Consular Officers will leave all of above indorsement blank. It is to be filled in only at the Custom House at the Port of Entry.

FIG. 27

INVOICE

________________, *190*

*Invoice of*____________________ *consigned to* ________________, *at* ______________, *for sale on account of*____________, *shipped by* ________________

*Per*____________________________

MARKS AND NUMBERS	DESCRIPTION	VALUE	AMOUNT	CONSULAR CORRECTIONS

(Signature of Owner or Agent)

FIG. 28

29. The following regulations No. 45 (amended) and No. 59 of the Department of Agriculture governing the transportation of meat in foreign commerce will show the requirements. The government does not permit the reproduction of forms of certificates, so that none can be shown.

Regulation 45.—The inspector in charge of an establishment shall issue certificates of inspection for all carcasses of cattle, sheep, swine, and goats, and the meats or meat food products thereof, which are to be exported to foreign countries. Each certificate shall cite the name of the shipper, the name of the consignee, the destination, the establishment number or numbers on the labels, the number of the stamps attached to the article to be exported, and the shipping marks. These certificates shall be issued in serial numbers and in triplicate form. Only one certificate shall be issued for each consign-

Certificate of the Value of Currency

Consular Agency of the United States at Penang, *ss:*

________________ 19__

I, ________________, Consular Agent of the United States of America, do hereby certify that the true value of the Straits silver dollar, the currency of the Straits Settlements, in which currency the annexed invoice of merchandise is made out, is __________ sterling per Straits silver dollar, being the rate current this day for demand draft on London, as compared with the corresponding standard coin currency, and that the value in such standard coin currency of the total amount of the currency actually paid for the merchandise is £__________.

____

American Consular Agent

FIG. 29

ment unless otherwise directed by the Chief of the Bureau of Animal Industry.

Both the original and duplicate certificates shall be delivered by the inspector to the shipper. The original certificate provided by law for the chief officer of the vessel shall be filed with the customs officers at the time of filing the master's manifest or the supplemental manifest.

Under date of September 25, 1906, the Secretary of Commerce and Labor issued the following instructions for the guidance of collectors of customs:

On and after October 1, 1906, no collector or other officer of customs shall issue clearance to any vessel carrying meat or meat food products

for export [illegible] certificates covering the same [illegible] have been obtained from the Department [illegible]

C[illegible] as satisfactory proof [illegible] have been obtained.

A verified [illegible] by the collector made by the master [illegible] at the time of application for clearance [illegible] meat food products [illegible] or will be [illegible] duly marked "U. S. Inspected and Passed" [illegible] by Regulation No. [illegible] as amended by Amendment No. [illegible] the [illegible] from the Department of Agriculture [illegible] with the master's manifest at the time [illegible] filed with the supplemental [illegible]

Provided [illegible] filed a second duly verified [illegible] the master or agent that the [illegible] of meat or meat food products have [illegible] name of shippers, dest[illegible] of stamps attached have been [illegible] and that all meat and meat food [illegible] are covered by the certificates [illegible] manifest.

If the master [illegible] at any time to so file all required certificates [illegible] with the supplemental [illegible] any vessel [illegible] certificates of inspection have been [illegible]

Regulation 59.—[illegible] transportation [illegible] any [illegible] marked, [illegible] as [illegible] retail [illegible] shall [illegible] for transportation [illegible] and [illegible] part [illegible] 45 [illegible] in

regulation 45 are waived for meat and meat food products for export to foreign countries other than those named in this regulation.

30. Payment and Acceptance Bills.—A **payment bill** is a documentary bill, the documents of which are surrendered to the drawee only on its payment. Sight and demand bills are always payment bills. On the receipt of a short- or long-payment bill by the collecting bank, the bill is immediately presented for acceptance to the drawee, but the documents are held by the bank until the bill is paid at or before its maturity. It is customary to allow the drawee

Deliver the Documents
attached to this Bill upon its
ACCEPTANCE

Fig. 30

Deliver the Documents
attached to this Bill upon its
PAYMENT
ONLY

Fig. 31

to examine the documents of a payment bill before his acceptance of the bill.

An **acceptance bill** is a documentary bill, the documents of which are surrendered to the drawee on its acceptance by him. Such a bill becomes equivalent to a clean commercial bill after the surrender of the documents.

31. The authority for the surrender of the documents, whether against payment or acceptance, must come from the drawer of the bill. The instructions are either written or printed on the face of the bill or on a slip that is attached to it. Figs. 30 and 31 show the plain forms ordinarily used.

Fig. 32 is a special form of payment slip peculiar to certain lines of trade with Great Britain and Ireland, and will be explained further on.

The Documents attached to this bill are only to be surrendered to the Drawee upon payment of the same, either under rebate or at maturity. If paid before maturity, the allowance of discount to the Acceptor is to be at the rate of one-half per cent. per annum above the then advertised rate for short deposits of the leading Joint Stock Banks of London.

If unaccepted and/or unpaid, protest.

THE FOREIGN EXCHANGE BANK

FIG. 32

32. Single-Name and Double-Name Bills.—The terms *single name* and *double name* as applied to bills have significance chiefly in connection with time bills and especially with long bills. A bill drawn by a bank on one of its branches or on its home office, or on another bank with which it is so closely connected financially that it is practically identical, is a **single-name bill.** A bill drawn by a merchant on his own paid agent or on a branch office, whether it has the same or a different name, or by an agent or a branch on a home office, is also a single-name bill. A bill drawn by one bank on another that is altogether independent of it, neither institution being interested in the other, or by one merchant on another similarly independent, is a **double-name bill.** Practically, however, until it is accepted by the drawee, such a bill is a single-name bill.

POSTAL REMITTANCES

33. Remittance Form.—Immigrants from foreign countries frequently wish to make remittances to their relations and friends abroad. Some, to whom money is to be forwarded, live in towns and villages without banking facilities. Others, although living in towns or cities having

No.

Date. ______________________ 190__

Received from ______________________

[illegible] ______________________

____

For remittance to ______________________

____

[illegible] ______________________

____

____

____

$ __________ Foreign Currency __________

Advised to K., N. & K., Date ______________ 190__

[illegible]

No.

ADVICE

To be sent to KNAUTH, NACHOD & KÜHNE, New York

Sent by ______________________

at ______________________

For remittance to: (Give full address, naming Street and City, County, State, etc.)

____

____

____

____

____

____

____

Foreign Currency ______________________

Rate __________ $ __________

Postage fee __________

$ __________

Place and Date ______________________ 190__

(Name) ______________________

No. Place and Date ______________________ 190__

Receipt

Received from ______________________ at ______________________

______________________ *Dollars*

For (Foreign Currency) ______________________

to be remitted to ______________________

Residence ______________________

____

$ ______ (Signature) ______________________

This slip should be forwarded by purchasers to payee abroad, the amount and date properly filled in

...his money prove not to have arrived within 10 days after the ...e please send this slip to Messrs. Knauth, Nachod & Kühne, ...rough whose mediation the remittance was made. Please ...ur name and full address.

...enn dies Geld nicht spätestens 10 Tage nach Empfang dieses ...cken Sie diesen Zettel gef. an die Herren Knauth, Nachod & ...utschland, durch deren Vermittlung dieser Betrag gesandt ...uf der Rückseite dieses Zettels Ihren Namen und Ihre volle

... a pénzt e cédula megérkezésétől számítandó 10 nap alatt ...ja nevét és pontos czimét a tulsó oldalra és küldje e cédu... Kühne urakhoz, Lipcsébe, Németországba, kiknek közveti...t.

...d by ste najneskor o 10 dní po prijatiu tejto kartky peniaze ...e meno a úplnú adresu na druhu stranu, a pošlite totu ...th, Nachod & Kühne, Leipzig, Deutschland, skrze ktorich ...odesiame boly.

...dată banii peste 10 zile punu cej kapate carta jesta nave ...e si adresa dumnisale pe cej lature ciedull, si tremete ...th, Nachod & Kühne, in Lipcse (Németország) cine a fast

...ajil, da ne bi denar 10 dni po sprejemu tega listka prejeli, ...j nemudoma gosp. Knauth, Nachod & Kühne, in Leipzig, ...e taistemu Vaš natanjčen naslov.

...kaznica je svedočba da su u istinu poslati novci. Kad ova ...jkasnej za 10 dana poslate novac u ruku nedobijete, obratite ...gosp. Knauth, Nachod & Kühne, in Leipzig, Deutschland, ... ovu iskaznicu, palspišite na drugoj strani vaš točni adres.

...e gdyby pieniądze nie doszły w przeciągu 10 dni po ode...a, zechce Pan posłać tę kartkę do p. p. Knauth, Nachod & ...emcy, przez których pieniądze wysłane zostały. Drugo...onie podać swój zupełnie dokładny adres.

______________________ 190__

Foreign Amount, ______________________

По русски: — Если бы Вы не получили этихъ денегъ въ теченіе 10 дней, по полученіи этого листа, то потрудитесь послать этотъ листъ Г-. подамъ Кнаутъ, Находъ и Küне въ Лейпцигъ, въ Германіи, чрезъ которыхъ деньги были высланы. На обратной стороне этого листа пишите одновременно Ваше имя и Вашъ полный и аккуратный адресъ.

Lietuviškai.—Jeigu negausite tų pinigų į 10 dienų po aplaikymui tos kvitos, tada meldžiame parašyti ant kitos pusės tos kvitos vardą pravardę o ir pilną adresą to kuriam priguli tie pinigai ir nusiuskite ant žemiau padėto adreso o trumpam laike pinigus apturėsite. Adresas: P. p. Knauth, Nachod & Kühne, w Lipsku, Niemcy.

Italiano.—Se entro 10 giorni, dopo ricevuto il presente, non vi fosse giunto il danaro, favorite spedire il biglietto presente, indicando a tergo esattamente il vostro nome, cognome, paternità, luogo di dimora e provincia, ai Signori Knauth, Nachod & Kühne in Lipsia, Germania, col tramite dei quali vi fù spedito l'importo suddetto.

Suomea.—Jos nämät rahat eivät saapuisi perille 10 päivän kuluttua saatuanne tämän, niin lähettäkää tämä keltaineniappu Herroille Knauth, Nachod & Kühne, Leipzigissä, Saksassa, joiden välityksellä rahat ovat lähetetyt. Teidän nimenne ja täydellinen osoitte on kiroitettova toisella puolella.

Svenska.—Ifall dessa penningar icke skulle hafva kommit tillhanda sednast 10 dagar efter emottagandet af detta, behagade Ni sända denna sedel till Herrar Knauth, Nachod & Kühne i Leipzig, Tyskland, genom hvars förmedling remissan har blifvit gjord. Edert namn och fullständiga addressen skulle tydligt noteras å andra sidan.

Norsk. | Ifald disse Penge ikke skulde være kommet Dem i Hände senest 10
Dansk. | Dage efter Modtagelsen of dette, bedes denne Seddel tilstillet Herrer Knauth, Nachod & Kühne, Leipzig, Tyskland, gjennem hvem dette Belöb blev sendt. Noter paa Bagsiden af denne Seddel Deres Navn og fulde, nöiagtige Adresse.

יודיש: — װאללטע איהנען דיעזעס געלד ניכט שפעטעסטענס 10 טאגע נאך עמפפאנג דיעזעס געשריבען זיין, זא שיקען זיא דיעזען צעטטעל געפעלליגסט אן דיא הערין קנאוט, נאכאר אונד קיהנע אין לייפציג דייטשלאנד דורך דערען פערמיטטלונג דער בעטראג געזאנדט װאורדע, נאטירען זיא אויף דער ריקזייטע דיעזעס צעטטעלס איהרען נאמען אונד איהרע פאללע אונד גענויע אדרעססע.

(Signature) ______________________

such facilities, know little or nothing of the uses of checks. The necessities of the case have led to the adoption of a system of remittances by means of which the money is delivered to the payee at his own address.

Fig. 33 shows a form in use by a New York banking house for such remittances. It is made up of two stubs, a receipt, and a notice slip. The first stub is for the complete record of the remittance to be made. The second stub is for use when another bank acts as the New York bank's agent, and is the advice of the remittance which that bank or agent must forward to the New York bank. The receipt and slip are for delivery to the person making the remittance, and it is expected that he fill out and forward the slip to the payee. The slip contains the only instructions necessary for the payee, covering what he must do if the money is not paid him within 10 days of the receipt of the slip. The instructions are printed in fifteen languages, as follows: English, German, Hungarian, Slavic (Slavonic), Rumanian, Slovak, Croatian, Polish, Russian, Lithuanian, Italian, Swabian, Swedish, Norwegian and Danish, and Hebrew.

34. How Payments Are Made.—The New York bank named in the form has its main continental office in Leipzig, Saxony, Germany. To this office are sent the daily lists of payments to be made, giving the name and address of each payee and the several amounts to be paid. This office then either forwards the actual money direct to the payee by registered letter, or sends instructions to that effect to one of its correspondents at a point nearer the destination.

35. Cost.—Postal remittances are generally made in small sums. Consequently, rates of exchange are made that will allow a fair commission of from 10 to 50 cents. A charge of from 10 to 15 cents is also made for postage and registration.

FOREIGN EXCHANGE

(PART 3)

BILLS OF EXCHANGE

BUYING AND SELLING BILLS OF EXCHANGE

RATES OF DISCOUNT

1. Discounting and Rediscounting.—Discounting in banking may be described as the commercial part of the banking business. It consists in buying and selling, before their maturity, bills of exchange and other negotiable paper, very much as merchandise is bought and sold. The terms of the transaction are expressed in a rate per cent. agreed on by buyer and seller, called the *discount rate*. This rate is governed by the prevailing rates of interest, but is not necessarily identical with them. The difference between interest and discount, in practice, may be illustrated as follows:

A gives B his 3 months' note for $1,000, bearing interest at 5 per cent. Value at maturity is . .	$1,012.50
At the end of 1 month B takes the note to C (a banker) who discounts (buys) it at $4\frac{3}{4}$ per cent., or	8.01
The price C pays for it is	$1,004.49

Both the rate per cent. ($4\frac{3}{4}$) and the amount ($8.01) are called *discount*.

In purchasing a bill drawn in a foreign currency, the discount is charged (deducted) in the rate of exchange.

Discounting bills drawn in a foreign currency is always spoken of as *buying* or *purchasing*.

Rediscounting consists in the discounting by one banker of what has already been discounted by another banker. Discounting and rediscounting are very extensively practiced by foreign bankers. The joint-stock banks of London, however, do not rediscount bills.

2. Money Market.—The **money market** is a general term given to the place in which money is the article dealt in, the word "money" here meaning what is known as *loanable funds*, that is, *floating capital awaiting or seeking investment*. The term also covers the demand for and the supply of loanable funds. The New York money market is the principal money market of America; the Paris money market, that of France; the Berlin money market, that of Germany; and the London money market, that of Great Britain and Ireland; etc. London is predominantly the international money market of the world, though Paris has temporarily acquired the position from time to time; and other cities may do the same.

3. Government Bank.—In almost every European country, there is one bank known as the **government bank.** This bank, while sometimes controlled by the government, is not owned by it, but is its banker and, generally, its fiscal (financial) agent. In some countries, this bank is also practically the reserve agent of the other banks, as in Great Britain. Government banks generally operate branch offices in some of the cities of their respective countries.

4. Bank Rate.—The **bank rate,** or the *official rate*, is the *minimum* rate at which a government bank will discount bills. Although this is a minimum rate, it should be understood that government banks may, at times and for some bills, charge rates that are higher or lower than the published bank rate.

5. Private Rate.—The **private rate,** or the *open-market rate*, is the minimum rate at which banks other

than the government banks will discount bills. The private rate is as a rule lower than the bank rate, usually $\frac{1}{8}$ to $\frac{1}{4}$ per cent., and sometimes lower still. Bankers, however, frequently charge the full bank rate or higher when discounting bills other than those of the highest standing.

The rate at which the drawee of a documentary payment bill may discount or retire the bill before its maturity is called the **retirement rate.** In the United Kingdom, this rate is "$\frac{1}{2}$ per cent. above the advertised rate of interest for short deposits allowed by the leading joint-stock banks of London," and since the latter is $1\frac{1}{2}$ per cent. below the bank rate, the retirement rate is practically 1 per cent. below the bank rate. In Continental countries, the bank rate is the retirement rate.

Private rates are very sensitive to all disturbances of the money market and are therefore subject to constant fluctuations, while the bank rate in each country frequently remains unchanged for a considerable length of time. In this sensitiveness to various influences, the private rate may be likened to a thermometer with a small bulb and the bank rate to one with a large bulb. The former, which contains only a small amount of mercury, is affected very quickly by changes in the temperature; while the latter, which contains a large quantity of mercury, requires that the changes in temperature shall be more protracted before it becomes affected by them.

6. Regulating Money Rates.—In European countries generally, the government banks and others of the larger banks operate numerous branches, and the rates of discount are practically the same everywhere, because they are regulated by the head or main offices. In Canada, which has no government bank but has a number of powerful banks that operate branches throughout the Dominion, similar results are obtained. In the United States, every city of importance fixes its own money rate, more or less independently of the rates obtaining in other cities, so that there is a lack of uniformity in the rates. Reasons for this may be found in

the size of the country; the differences in the banking laws of the various states; the banking system of the country; the fact that there is no institution or group or association of banks that can, either by agreement or by common consent, establish a rate that will regulate the open-market rate throughout the country; and the further fact that, at present, there is no discount market corresponding to those found in European countries, because, since discounting and rediscounting are not carried on in the same way, there is not the same necessity for one.

In foreign countries, usage and an appreciation of the advantages resulting from stability in the rates have given to the bank rate a controlling influence over the private rates.

7. Influence of Bank of England Rate.—The most remarkable illustration of the power exerted by a government bank through its rate of discount is found in that of the Bank of England; for, in addition to its national, or domestic, influence, it has an international influence greater than that of any other bank. The national, or domestic, influence of this bank has been strengthened by the fact that when disturbances of the money market are due to causes of a temporary nature, it may, rather than make a change in the bank rate, seek to restore equilibrium by loaning freely in case of a stringency or by borrowing freely in case of an oversupply of funds.

The international influence of this bank will always be paramount so long as London continues to hold her position as the financial center of the world and its principal gold market; and so long as the directors of the Bank of England, availing themselves of the advantage thus afforded them, continue to feel the financial pulse of the world more accurately than those of any other similar bank.

8. How the Bank of England Rate is Established.—The regular meeting of the directors of the Bank of England is held on Thursday of each week. At this meeting, the bank's rate is fixed, the directors determining whether the

rate shall remain as it then stands or shall be changed, and, if the latter, what shall be the extent of the change. Special meetings of the directors are called only in cases of emergency, so that changes in the bank's rate are rarely made on other days. Consequently, the Thursday action of the directors is watched with interest by all countries, and especially so in times of monetary disturbances.

Changes in the bank's rate are made only when the condition and the requirements of the domestic and international money markets and their causes clearly indicate the necessity for a change. The Bank of England rate is therefore universally regarded as a good barometer of the international money market.

Table I shows the position of the bank rates in London, Berlin, and Paris for the years indicated; also those of other continental countries.

TABLE I

CHANGES IN THE BANK RATE IN DIFFERENT EUROPEAN COUNTRIES

London: THE BANK OF ENGLAND

	Date	Per Cent.		Date	Per Cent.
1899,	Nov. 30,	6	1903,	May 21,	$3\frac{1}{2}$
1900,	Jan. 11,	5		June 17,	3
	Jan. 18,	$4\frac{1}{2}$		Sept. 2,	4
	Jan. 25,	4	1904,	Apr. 13,	$3\frac{1}{2}$
	May 24,	$3\frac{1}{2}$		Apr. 20,	3
	June 14,	3	1905,	March 8,	$2\frac{1}{2}$
	July 19,	4		Sept. 6,	3
1901,	Jan. 3,	5		Sept. 27,	4
	Feb. 7,	$4\frac{1}{2}$	1906,	Apr. 4,	$3\frac{1}{2}$
	Feb. 21,	4		May 3,	4
	June 6,	$3\frac{1}{2}$		Oct. 11,	5
	June 13,	3		Oct. 19,	6
	Oct. 31,	4	1907,	Jan. 17,	5
1902,	Jan. 23,	$3\frac{1}{2}$		Apr. 11,	$4\frac{1}{2}$
	Feb. 6,	3		Apr. 25,	4
	Oct. 2,	4		Aug. 15,	$4\frac{1}{2}$

REMARKS.—The bank rate has not touched 10 per cent. since 1866. In this table, the lowest rate shown is $2\frac{1}{2}$ per cent. and the highest 6 per cent. From Feb. 22, 1894, to Sept. 10, 1896, and from May 13 to Sept. 23, 1897, it remained at 2 per cent.

Berlin: DEUTSCHES REICHSBANK
(The Imperial Bank of Germany)

	Date	Per Cent.		Date	Per Cent.
1904,	Oct. 12,	5	1906,	Jan. 18,	5
1905,	Jan. 19,	4		May 23,	4½
	Feb. 14,	3½		Sept. 18,	5
	Feb. 25,	3		Oct. 10,	6
	Sept. 10,	4		Dec. 18,	7
	Oct. 3,	5	1907,	Jan. 22,	6
	Nov. 4,	5½		Apr. 23,	5½
	Dec. 12,	6			

Paris: LA BANQUE DE FRANCE (The Bank of France)

	Date	Per Cent.		Date	Per Cent.
1900,	May 24,	3	1907,	March 21,	3½

Netherlands:

	Date	Per Cent.		Date	Per Cent.
1903,	———	3½	1905,	March,	2½
1904,	June,	3		Nov.,	3

Austria:	Date	Per Cent.
1905,	Oct.,	4½
Belgium:		
1905,	Oct.,	4
Russia:		
1904,	Feb.,	5½

Italy and **Spain** have maintained a rate of 5 per cent. for sever years.

9. Influence of Bank and Private Discount Rate on Rates of Exchange.—The bank and private discou rates in a country affect all of the transactions of the foreig exchange banker with that country, as is shown by th following:

1. These rates affect the buying and selling (bid an asked) rates of exchange on that country.

2. Their position, when compared with the prevailin domestic discount rates, indicates whether or not it will b profitable to obtain loans from that country.

3. They have an indirect influence on the stock (securities markets, because they usually indicate the relation of th

supply of capital to the demand for it, the tendency at first of an insufficiency in the supply (high rates) being to inactivity in the market and consequently to depression of prices.

4. The bank rate regulates the interest allowed by foreign bankers on the credit balances of American and other bankers, and also that charged by them on debit balances.

RATES OF EXCHANGE

10. **Sight rates** are the rates of exchange, bid or asked, for checks and sight and demand bills.

An advance in the discount rates in a country has a tendency to weaken the sight rates of exchange in that country, and consequently to stiffen them in other countries; and a decline in the discount rates has the opposite tendency. This tendency is well illustrated by the actual effect on the sterling rates in New York of an advance in the London bank rate in October, 1906. Thursday, October 11, 1906, the Bank of England raised its discount rate from 4 per cent. to 5 per cent., and again on Friday, October 19, 1906, it raised the rate from 5 per cent. to 6 per cent. Early in the week beginning October 8, conditions were such that bankers expected that the bank rate would be raised on Thursday. In response to this expectation, sterling exchange began to advance, and from 4.84 it rose until, October 12, it stood at 4.85¼. It dropped to 4.84¾ the next week, and remained at about that figure until, as a result of the unexpected advance on Friday, October 19, it rose to 4.85¾.

11. **Time rates** are the rates of exchange, bid or asked, for time bills of exchange. They are obtained by deducting from the sight rates the discount for the life of each bill plus certain fixed charges. The rate of the discount so deducted is based on the bank and private rates of discount prevailing in the country where the bill is payable, and not on the rates in the country where it is drawn. The reason for this is that those are the rates at which the foreign correspondents will discount bills that are sent to them. Consequently, all time

rates of exchange fluctuate both with the sight rates and with the bank and private rates of discount in the foreign countries on which they are quoted.

The term **flat rate** is used in different ways. In general, it is used of a rate that is not subject to further discount, commission, or charges. It is also used of a net rate that is quoted on a number of bills that have different lengths of time to run—as a check, a 1 day's sight bill, and a 3 days' sight bill, or on bills that are payable in different cities—as in London, Manchester, and Liverpool.

PURCHASES AND SALES OF EXCHANGE

12. Purchases.—The exchange that a bank may purchase for credit to its account with its foreign correspondents consists of cable transfers, checks, sight and demand bills, short and long clean bills, short and long documentary acceptance and payment bills. Cable transfers are credited to the account on receipt; checks and sight and demand bills are credited on receipt or on collection, according to their amounts and the places where payable; bills payable 1 to 5 days after sight are generally credited when paid, but may be discounted and credited on acceptance; other time bills that can be rediscounted are generally discounted and credited on acceptance, while those that cannot be rediscounted, such as documentary payment bills, are held and credited when paid. Continental payment bills are, however, sometimes discounted and credited on acceptance, because the retirement rate at which they may be paid before maturity is the bank rate. Bills that are drawn in a different currency from that of the country where payable are credited when paid, because they are settled at the rate of exchange on the day of payment.

13. Sales.—The exchange that a bank sells consists of its own cable transfers, checks, demand bills, and long bills. In America, buyers of exchange generally call for checks, but in some lines of business and for remittances to some

countries where long bills are required or preferred, they call for long bills.

14. Profits.—The profits or commissions that may be realized from the purchase and sale of exchange are very small on each item, considering the risk involved, but, under careful management, in the aggregate they may be made a valuable part of a bank's earnings. Table II shows the equivalents of different percentages of profit expressed decimally in the rates named.

TABLE II

DIFFERENT PERCENTAGES OF PROFIT

Fractional Equivalent	Decimal Equivalent	Equivalent per Sterling Rate $4.8665	Equivalent per Mark Rate $.95 5/16	Equivalent per Franc Rate *fr.* 5.18¼	Equivalent per $1,000
1/64%	.00015625	.00076+	.00015−	.00081−	.15⅝
1/32%	.0003125	.00152+	.00030−	.00162−	.31¼
1/16%	.000625	.00304+	.00060−	.00324−	.62½
⅛%	.00125	.00608+	.00119+	.00648−	1.25
¼%	.0025	.01216+	.00238+	.01285+	2.50
¼‰	.00025	.00122−	.00024−	.00129+	.25
½‰	.0005	.00243+	.00048−	.00259+	.50

NOTE.—The sign ‰ means *per mil* or *per thousand*, and is called *per mil*.

To work successfully on such narrow margins of profit, the banker must make quick sales against his purchases, otherwise the profit will disappear in interest on the money invested. In determining what profits should be made on different bills, the banker usually considers the following points:

1. The amount of the bill. A small documentary bill for £25 could not ordinarily be bought on the same margin as one of the same kind for £250 or £2,500; for, in the first place, the foreign banker would not be likely to discount it at the same rate, and, in the second place, the expense of postage on such a small bill would probably be as great as on the larger, and more than wipe out a

percentage of profit that on the larger amounts would be considered sufficient.

2. The city on which the bill is drawn and where it is payable. It takes more time to collect bills payable outside of the cities where correspondents are located, for which allowance must be made. A special commission is frequently charged for collecting such bills, the amount of which varies with the city and the distance, and for this commission an allowance must also be made.

3. The class of bill, including the nature of the business of the drawer and drawee, as well as their financial standing. For example, a documentary bill drawn against a shipment of live stock or of perishable merchandise, such as fresh meats, fruits, vegetables, etc., is not so good a risk as one that is drawn against non-perishable merchandise.

15. Classification of Bills.—It is impossible to classify bills in any order that will hold good under all circumstances. The following is, however, fairly accurate, and is given as a guide, subject to modification according to circumstances. Although this classification is for use primarily in connection with time bills, it is also applicable to checks and sight and demand bills.

Clean 1.—Prime bankers' bills (double-name).

Clean 2.—Prime bankers' bills (single-name).

Clean 3.—Prime commercial and other bills on prime bankers in financial centers.

Documentary 4.—Commercial bills on bankers, acceptance.

Documentary 5.—Commercial bills on merchants, payment.

Clean 6.—Prime commercial and other bills on merchants and others (double-name).

Documentary 7.—Commercial bills on merchants, acceptance (double-name). (1) Non-perishable merchandise.

Documentary 8.—Commercial bills on merchants, acceptance (single-name). (2) Perishable merchandise.

Clean 9.—Commercial bills on merchants and others.

Purchases and sales of bankers' bills between bankers are generally made on a narrower margin of profit than are the purchases and sales of other bills, as will be inferred from their position in this classification.

16. Method of Determining Buying Rates.—The following examples have been selected to illustrate the method by which a banker will determine what rates of exchange to offer (bid) for cables and for some of the many kinds of bills presented to him. It is assumed that the calculations are made in New York. They are based on rates of discount supposed to be quoted in the cities named, and on check or sight rates of exchange on those cities supposed to be quoted in New York.

DISCOUNT RATES

In London:	bank, 4%;	private, $3\frac{3}{4}$%–$3\frac{5}{8}$%;	retirement, 3%
In Paris:	bank, 3%;	private, $2\frac{3}{4}$%–$2\frac{5}{8}$%;	retirement, 3%
In Berlin:	bank, 5%;	private, $4\frac{3}{4}$%–$4\frac{5}{8}$%;	retirement, 5%

CHECK OR SIGHT RATES

On London:	4.86 to 4.8610;	posted rate, 4.87
On Paris:	$5.18\frac{3}{4}$ to $5.18\frac{3}{4} + \frac{1}{32}$;	posted rate, $5.18\frac{1}{8} + \frac{1}{16}$
On Berlin:	$.95\frac{3}{8}$ to $.95\frac{3}{8} + \frac{1}{32}$;	posted rate, $.95\frac{1}{2} + \frac{1}{16}$

In order to protect themselves against possible advances in the foreign discount rates, American bankers frequently contract with their correspondents by cable to discount, at a fixed rate, bills "to arrive" (that is, bills to be forwarded on a given day). In the same way, they also frequently secure special rates for remittances of large amounts.

Bill stamps are required by law in nearly all foreign countries.

The percentage of profit shown in the examples merely indicates what may be charged.

Commissions are charged by the foreign banker according to usage or agreement. From $\frac{1}{32}$ to $\frac{1}{8}$ per cent. is generally charged on bills that are payable at points outside of the particular city in which the correspondent is located. From $\frac{1}{4}$ per mil to $\frac{1}{16}$ per cent. may also be charged on all items handled; but, if this is the agreement, the banker generally makes allowance for it in the percentage of profit.

The expression, "Net proceeds, equivalent to" in the following examples means the equivalent of the proceeds of the bill when discounted, expressed in the rate.

EXAMPLE 1.—Sterling cables.

Check rate		4.86
Add interest, 10 days at $3\frac{3}{4}$%		.0050
		4.8650

Rate to be bid, 4.8645 to 4.8655.

NOTE 1.—In the United Kingdom, actual interest (365 days to the year) is figure
NOTE 2.—The actual number of days interest to be figured in a cable rate depen on the probable time it will require for a remittance to be made by mail, and th varies with the speed of different steamers.

EXAMPLE 2.— 60 d/s prime bankers' bills on London; secured ra of discount, $3\frac{5}{8}$%.

Check rate		4.86
Less interest, 63 days at $3\frac{5}{8}$%	.0304	
Less bill stamp, $\frac{1}{2}$‰	.0024	.0328
Net proceeds, equivalent to		4.8272
Less for profit		.0022
		4.8250

Rate to be bid, 4.8245 to 4.8260.

NOTE 1.—A bill bought at a rate of 4.8255 would yield a profit of a little more than $\frac{1}{32}$% on the net proceeds.
NOTE 2.—All sterling time bills (short and long) are subject to 3 days of grace.

EXAMPLE 3.— 3 d/s bills on London, documentary and clean.

Check rate		4.86
Less interest, 6 days at 4%	.0032	
Less bill stamp	(none)	.0032
Net proceeds, equivalent to		4.8568
Less for profit		.0033
		4.8535

Rate to be bid, $4.85\frac{1}{4}$ to $4.85\frac{1}{2}$.

NOTE 1.— 3 d/s bills are too short to be readily rediscounted and are therefore generally held by foreign bankers until maturity. If discounted, it is usually at the bank rate.
NOTE 2.—No allowance is made for bill stamp, as bills payable at 3 d/s or less are subject to a penny charge only, the same as checks.

EXAMPLE 4.— 5 d/s documentary bills (perishable merchandise) on London; small amounts, as £25 to £200.

Check rate		4.86
Less interest, 8 days at 4%	.0043	
Less bill stamp $\frac{1}{2}$‰	.0024	.0067
Net proceeds equivalent to		4.8533
Less for profit		.0033
		4.85

Rate to be bid, $4.84\frac{3}{4}$ to 4.85.

EXAMPLE 5.— 10 d/s documentary bills (live stock) on London bankers; large amounts, as £1,000 to £5,000.

Check rate		4.86
Less interest, 13 days at 4%	.0069	
Less bill stamp, $\frac{1}{2}$‰	.0024	.0093
Net proceeds, equivalent to		4.8507
Less for profit		27
		4.8480

Rate to be bid, 4.8465 to 4.85.

NOTE.—A profit is also figured in the 4-per-cent. discount rate, which is high for bankers' bills, but is so because of the class of bill, for live stock requires feeding, care, and is liable to disease and death.

EXAMPLE 6.— 60 d/s documentary payment bills (grain) on English, Scotch, or Irish cities, but payable in London.

Check rate		4.86
Less interest, 63 days at 3%	.0252	
Less bill stamp, $\frac{1}{2}$‰	.0024	.0276
Net proceeds, equivalent to		4.8324
Less for profit		.0024
		4.83

Rate to be bid, 4.8285 to 4.83$\frac{1}{8}$.

NOTE 1.—Grain-payment bills are generally retired promptly.

NOTE 2.—Grain-payment bills payable in cities outside of London are worth about $\frac{1}{8}$ per cent. less than those payable in London.

NOTE 3.—Commission is sometimes charged by English, Scotch, and Irish banks for securing the acceptance of bills drawn on other cities than London, but payable in London.

EXAMPLE 7.— 60 d/s documentary payment bills (cotton) on English cities, but payable in London.

Check rate		4.86
Less interest, 63 days at 4%	.0336	
Less bill stamp, $\frac{1}{2}$‰	.0024	.0360
Not proceeds, equivalent to		4.8240
Less for profit		.0025
		4.8215

Rate to be bid, 4.82 to 4.82$\frac{1}{4}$.

NOTE.—Cotton-payment bills are seldom retired before maturity, and since payment bills are not discountable, they are held for collection. They consequently command rates $\frac{1}{16}$ to $\frac{1}{4}$ per cent. less than payment bills that are retired promptly. Although unable to discount these bills, foreign bankers will usually make advances against them at reasonable rates. If money is at 6 per cent in New York, to buy such bills at a 4-per-cent. rate and to allow them to remain until maturity without using them as collateral for advances, would clearly mean that the purchasing banker was making 2 per cent. less than the market on the money invested in these bills.

EXAMPLE 8.— 90 d/s documentary acceptance bills (cotton or other merchandise) on bankers in London or in other English cities, payable in London.

Check rate		4.86
Less interest, 93 days at $3\frac{3}{4}$%	.0464	
Less bill stamp, $\frac{1}{2}$‰	.0024	.0488
Net proceeds, equivalent to		4.8112
Less for profit		.0012
		4.81

Rate to be bid, $4.80\frac{7}{8}$ to 4.81.

NOTE 1.—Acceptance bills are readily rediscounted and therefore may be bought at the current market rate of discount.
NOTE 2. Sixty-day bills would be figured at the same rate of discount, but the rate would probably increase to $3\frac{7}{8}$ or 4 per cent. for 120-day bills, or longer.

EXAMPLE 9.— 60 d/s documentary acceptance bills on London merchants.

Check rate		4.86
Less interest, 63 days at $3\frac{3}{4}$%	.0315	
Less bill stamp, $\frac{1}{2}$‰	.0024	.0339
Net proceeds, equivalent to		4.8261
Less for profit		.0026
		4.8235

Rate to be bid, $4.82\frac{1}{4}$ to 4.8240.

EXAMPLE 10.— 120 d/s documentary acceptance bills (cotton or other merchandise) on bankers in Italian cities, payable in London. These bills are also drawn at 60, 90, and 180 d/s.

Check rate		4.86
Less interest, 123 days at 4%	.0655	
Less bill stamp, Italy, $1\frac{1}{5}$‰	.0059	
Less bill stamp, London, $\frac{1}{2}$‰	.0024	.0738
Net proceeds, equivalent to		4.7862
Less for profit		.0027
		4.7835

Rate to be bid, $4.78\frac{1}{4}$ to $4.78\frac{1}{2}$.

NOTE. Discount is figured at the bank rate because sterling continental bills domiciled in London are not discounted by the Bank of England; but the discount rate is sometimes increased above the bank rate for bills longer than 90 or 120 days.

EXAMPLE 11.— 90 d/s documentary acceptance bills on bankers in Zurich, Switzerland, or other Swiss cities, payable in London.

Check rate		4.86
Less interest, 93 days at 4%	.0495	
Less bill stamp, Zurich	.0000	
Less bill stamp, London $\frac{1}{2}$‰	.0025	.0520
Net proceeds equivalent to		4.8080
Less for profit		.0025
		4.8055

Rate to be bid, $4.80\frac{3}{8}$ to $4.80\frac{5}{8}$.

EXAMPLE 12. 30 d/s master's bills (clean) on English cities, payable in London.

Check rate		4.86
Less interest, 33 days at 4%	.0176	
Less bill stamp, $\frac{1}{2}$‰	.0024	.02
Proceeds		4.84
Less for profit		.0025
		4.8375

Rate to be bid, $4.83\frac{1}{2}$ to $4.83\frac{3}{4}$.

NOTE.—For such bills, when not payable in London, the rate to be bid would be $4.83\frac{1}{8}$ to $4.83\frac{1}{2}$.

EXAMPLE 13.— 3 d/aa to 10 d/aa master's disbursement notes, payable at European ports (generally drawn in sterling).

Check rate		4.86
Less interest, 60 days at New York rate, say 5%	.04	
Less bill stamp, $\frac{1}{2}$‰	.0024	
Less commission and exchange, $\frac{1}{4}$%	.0122	
Less for profit, $\frac{1}{4}$%	.0122	.0668
		4.7932

Rate to be bid, 4.79 to $4.79\frac{1}{2}$.

NOTE 1.—Advances made on these notes are actual loans on the security of the indorsers or of guarantors. Interest is therefore figured in this example at a supposed New York rate, and 60 days is taken as a fair allowance for delays and stops at one or more ports before the vessel reaches the port where the note is payable. As a protection against loss in an advance of this description, a banker should obtain a written agreement from the indorser or guarantor to the effect that, if payment is not made within the time for which interest has been charged, the amount advanced will be repaid by the latter, or interest at the current rate will be paid for any additional time until the note is taken up.

NOTE 2.—Bills drawn on cities in the British colonies generally contain what is known as the *colonial clause*, as follows: "Payable with exchange (colonial stamps and all charges) at the current rate for negotiating bills on the Colonies." Bills containing this clause are bought at the sight or check rate on London, whether they are sight or short or long bills; but they must be sent to London bankers for discount or collection. Bills without this clause are taken for collection, but advances may be made against them at current domestic rates of interest.

EXAMPLE 14.—Paris cables.

Check rate	5.1875
Add (subtract) interest 10 days at $2\frac{3}{4}$%	.0039
	5.1836

Rate to be bid, $5.18\frac{1}{8} - \frac{5}{64}$ to $5.18\frac{3}{4} + \frac{5}{64}$.

EXAMPLE 15.— 90 d/s prime bankers' bills on Paris, secured rate of discount $2\frac{5}{8}$%.

Check rate		5.1875
Less (add) interest, 85 days at $2\frac{5}{8}$%	.0321	
Less (add) interest, 5 days at 3%	.0022	
Less (add) bill stamp, $\frac{1}{2}$‰	.0026	.0369
Net proceeds		5.2244
Less (add) for profit		.0022
		5.2266

Rate to be bid, $5.22\frac{1}{2} - \frac{3}{64}$ to $5.23\frac{1}{8} + \frac{3}{32}$.

NOTE 1.—On all long bills in France interest for 5 days is figured at the t rate. A difference of $\frac{1}{4}$ per cent. in interest for 5 days on the rate of exchang equivalent to about $\frac{2}{100}$ of a centime (fr.00002) or about $7 per fr.1,000,000. year is taken at 360 days.

NOTE 2.—A rate of $5.23\frac{1}{8} + \frac{3}{32}$ will yield a profit of $\frac{1}{32}$+ per cent. on the proceeds.

EXAMPLE 16.— 3 d/s documentary payment bills on cities ot than Paris.

Check rate		5.1875
Less (add) interest 3 days at 3%	.0013	
Less (add) bill stamp, $\frac{1}{2}$‰	.0026	
Less (add) commission, $\frac{1}{2}$‰	.0026	.0065
Net proceeds		5.1940
Less (add) for profit $\frac{1}{8}$%		65
		5.2005

Rate to be bid, 5.20 to $5.19\frac{7}{8} - \frac{1}{16}$.

EXAMPLE 17.— 60 d/s documentary acceptance bills on Pa bankers.

Check rate		5.1875
Less (add) interest, 55 days at $2\frac{3}{4}$%	.0218	
Less (add) interest, 5 days at 3%	.0022	
Less (add) bill stamp, $\frac{1}{2}$‰	.0026	.0266
Net proceeds		5.2141
Less for profit		.0024
		5.2165

Rate to be bid, $5.21\frac{7}{8} + \frac{1}{32}$ to $5.21\frac{1}{4} - \frac{1}{16}$.

EXAMPLE 18.— 60 d/s documentary acceptance bills on Belg bankers.

Check rate		5.20
Less (add) interest, 60 days at $3\frac{1}{2}$%	.0303	
Less (add) bill stamp, $\frac{1}{2}$‰	.0026	.0329
Net proceeds		5.2329
Less for profit		.0033
		5.2362

Rate to be bid, $5.23\frac{3}{4} + \frac{1}{64}$ to $5.23\frac{1}{8} - \frac{5}{64}$.

NOTE.—Exchange on Belgium is assumed to be at a discount of $\frac{1}{4}$ per cen Paris, so that in New York the rate is lower than the Paris rate. Belgian bank r 4 per cent.; private rate, $3\frac{1}{2}$ per cent.

EXAMPLE 19.— 60 d/s documentary acceptance bills on Zur bankers.

Check rate, $5.19\frac{3}{8} - \frac{1}{16}$		5.1970
Less (add) interest, 60 days at 4%	.0346	
Less (add) bill stamp, none in Zurich		.0346
Net proceeds		5.2316
Less for profit		.0033
		5.2349

Rate to be bid, $5.23\frac{3}{4} + \frac{3}{64}$ to $5.23\frac{1}{8} - \frac{3}{64}$.

EXAMPLE 20.—Berlin or Hamburg cables.

Check rate, $.95\frac{3}{8}$	.95375
Add interest, 10 days at $4\frac{3}{4}$%	.00126
	.95501

Rate to be bid, $.95\frac{1}{2} - \frac{1}{64}$ to $.95\frac{1}{2}$.

EXAMPLE 21.— 3 d/s documentary payment bills (grain) on Hamburg.

Check rate		.95375
Less interest, 3 days at 5%	.0004	
Less bill stamp, $\frac{1}{2}$‰	.0005	.0009
Net proceeds, equivalent to		.95285
Less for profit		.00050
		.95235

Rate to be bid, $.95\frac{1}{4} - \frac{1}{32}$ to $.95\frac{1}{4}$.

NOTE 1.—The year is taken as 360 days.

NOTE 2.—It has become a custom among German importers not to accept documentary bills drawn on them on presentation of the firsts, as is done elsewhere, unless the presenting banker guarantees the delivery of the seconds as soon as received. Owing to this unusual custom, bankers in other countries are obliged to attach to the first of exchange a notice to the effect that they hold the duplicate copies of the documents, which will be forwarded by______steamer, and requesting the correspondent to guarantee their delivery on arrival.

EXAMPLE 22.— 60 d/s documentary acceptance bills.

Check rate		.95375
Less interest, 55 days at $4\frac{3}{4}$%	.0069	
Less interest, 5 days at 5%	.0007	
Less bill stamp, $\frac{1}{2}$‰	.0005	.0081
Net proceeds, equivalent to		.94565
Less for profit		.0005
		.94515

Rate to be bid, $.94\frac{1}{2}$ to $.94\frac{1}{2} + \frac{1}{32}$.

NOTE 1.—In Germany, on long bills of exchange for mk.10,000 and over, 5 days are discounted at the bank rate, while on bills for less than mk.10,000, 10 days are discounted at that rate. If, however, several smaller bills, aggregating mk.10,000 or over are discounted together, German banks frequently calculate only 5 days' interest at the bank rate.

NOTE 2.—Bills drawn on cities other than Berlin and Hamburg are bought at from $\frac{1}{64}$ to $\frac{1}{16}$ per cent. less than bills drawn on those cities, to cover collection charges.

17. The foregoing examples are sufficient to explain the general principles on which quotations are made for the purchase of bills drawn in the currency of the country where they are payable. In purchasing or making advances on bills drawn in a different currency, however, the banker must charge interest for the entire time from purchase until the receipt of returns, and sufficient to cover charges and fluctuations in exchange.

The quotation of rates for the sale of exchange is based on the actual, or selling, rate of exchange. Some bankers charge a small commission above the rate for small amounts, while others charge the posted rate or more, the object always being to make a reasonable profit above the cost on all sales.

LAWS AND USAGES

GENERAL

18. Foreign Languages.—It is desirable that the foreign-exchange clerk should be able to intelligently translate banking laws, regulations, circulars, bills of exchange and correspondence written in the principal foreign languages. It is also desirable for a bank that has frequent dealings with foreigners to have some employes that can talk with those that cannot speak English. Generally, sufficient English is known by foreign bankers to enable them to understand letters written in English, though they may be unable to write it. Large banks in European centers employ clerks that correspond in English. The best dictionaries and grammars of the languages most used are useful and inexpensive investments.

19. Codes of Law.—It is important that the foreign-exchange clerk, as well as the manager of the department, should know enough of the laws and usages of our own and of foreign countries in regard to bills of exchange to enable him to handle the transactions of the department properly. In America, the Negotiable Instruments Law has now been

adopted by a majority of the states, and is likely to be adopted by all before many years elapse. In general, the foreign correspondents of each bank will safeguard its interests in their respective countries. It is nevertheless desirable for the American banker to learn what requirements he must fulfil in each country, and also what rights he has under the laws of each country. At present, this is a somewhat difficult task, for there is no international code, and although the laws of all European countries and of some others have been codified, there is no English translation of them. The French Code de Commerce of 1818, the German General Exchange Law of 1849 (modified in 1869), and the English Bills of Exchange Act, 1882, are the models chiefly followed by European countries, the German law having the preference. It is possible, therefore, to note only a few of the more important general rules to be observed.

FORMS OF BILLS OF EXCHANGE

20. General Requirements.—A bill of exchange must conform in the first place to the laws of the country of issue; that is, the country *in* which it is drawn, and in the second place, to any special requirements of the country *on* which it is drawn. Thus, a bill drawn in America must first conform to American laws; one in England, to English laws; and so on. It must then conform to any further requirements of the laws of the country on which it is drawn and where it is payable.

A bill may be drawn in any language. In some countries, however, provision is made requiring that bills not drawn in a well-known language, such as English, French, German, Italian, Spanish, and Portuguese, shall have a certified translation furnished with them. For example, in Berlin, a bill drawn in Russian is not a good delivery, unless a certified translation is furnished with it. Bills may also be drawn in any currency; but it is generally better that they should be drawn in the currency of the country where they are payable, unless usage is otherwise, as is the case in some South American, African, and Oriental countries.

21. All countries require that a bill of exchange shall state: (1) the place where and the date when drawn; (2) the name and address of the drawee; (3) the time for payment, or some definite means of determining the time for payment (a bill that does not specify any time for payment is assumed to be payable on demand, as a check); (4) the sum to be paid, generally required to be written both in words and in figures; (5) the name of the payee or some means of determining who he is; (6) the signature of the drawer. It is also generally required that bills, other than checks, shall be drawn to "order," and for "value received."

22. Place for Signature of an Agent or Officer. When a bill is signed by an agent or officer of the principal (whether individual, firm, or corporation), the signature must be written directly under the printed or written name of the principal. Otherwise, according to English and American law, if the bill is disclaimed by the principal, it will be regarded as the individual bill of the signer. It is not sufficient for the name of the principal to appear at the top or at the left end of the bill; it must also be directly over the signature. For example, if a bill of exchange was signed John Smith, Treasurer, unless Mr. Smith's signature appeared directly under the name of the company of which he was the treasurer, in case of its dishonor by the principal, the bill would be held to be the individual bill of John Smith, even though the name of the company appeared elsewhere on the bill.

23. Some Special Requirements.—In France, checks must have the date written in words, not figures, in the same handwriting as the body of the check; for example: January 25 must be written "January twenty-fifth," or in French "le vingt-cinq Janvier." The penalty that attaches to a disregard of these requirements is the full bill stamp of ½‰. This law also applies to checks drawn on France in other countries. Bills of exchange, however, may be dated in figures. Those drawn in France must state the nature of the consideration; that is, whether they are drawn

for value in merchandise, or value in account, or value in money, etc. "Value received" alone is not sufficient for

FIG. 1

such bills. This has importance for the American banker only in the case of bills drawn on America in France.

In Germany, it is required that every bill, except a check, shall state that it is a "bill of exchange." It is also required that all checks, whether drawn in Germany or drawn on

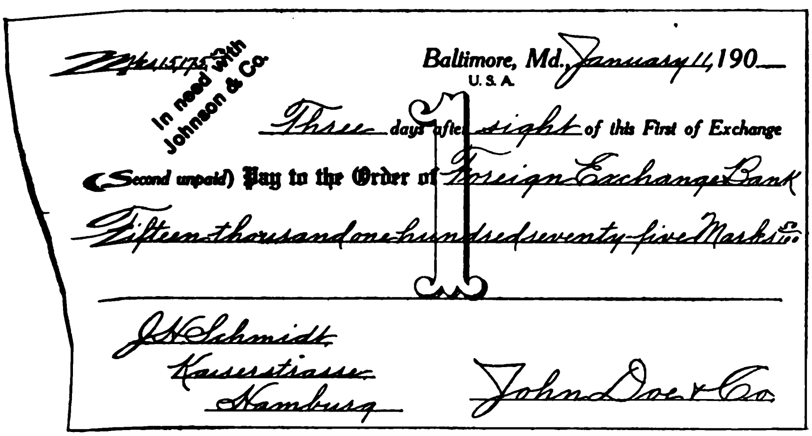


FIG. 2

Germany, shall contain the word check. They must also state that they are drawn "against funds due" or its

banker, but if for any reason it is not paid, the check will be paid on presentation to the "case of need."

If the bill is a commercial bill, the case of need is generally a *referee in case of need* (see Fig. 2). For example, a firm of grain shippers in New York have an agent A in Hamburg, who sells a cargo of wheat to a merchant there. The order is filled and the shippers draw on the Hamburg merchant, but mark the bill "In need with A in Hamburg." The merchant has cause for complaint and will not accept or pay the bill. The holder then refers to A, who adjusts the difficulty and the bill is accepted and paid, without the loss of time and cost of cabling that would be necessary if the matter had to be referred to the shippers.

INDORSEMENTS

25. The indorsement of a bill must be made in accordance with the law of the place of delivery. At the same time, the indorsement must conform to the law of the place in which it is made. Indorsement is quite generally called *Giro* outside of English-speaking countries.

26. General Requirements and Kinds.—Indorsements are known as *special* or *in blank*, and may be made *restrictive* or may be *qualified.* There are also *conditional* and *irregular* indorsements.

A **special indorsement** is one that specifies the person, called the *indorsee*, to whom or to whose order the bill is payable; as, "Pay John Smith," or "Pay John Smith or order." An **indorsement in blank** is one that specifies no indorsee, and a bill so indorsed becomes payable to bearer. For example, if John Smith simply writes his name beneath the above special indorsement and specifies no person to whom the bill is to be paid, his indorsement is in blank, which makes it payable to bearer.

The indorsement of a bill that has been indorsed in blank may be changed by any holder into a special indorsement by writing over the last indorser's signature the instruction,

"Pay_____or order." For example, if Henry Jones is the next holder to John Smith, he may change John Smith's blank indorsement into a special indorsement by writing over John Smith's name "Pay Henry Jones or order." A special indorsement following an indorsement in blank controls the effect of the latter, so that it is not payable to bearer until again indorsed in blank.

27. A **restrictive indorsement** is one in which the indorser inserts a stipulation that prohibits or limits the further negotiation of the bill by the holder. A bill may be drawn as well as indorsed in a restrictive form; as, for example, "Pay_____only"; "Pay_____or order for collection only." "Pay_____for account of_____." These forms restrict the negotiation of the bills on which they are written, making them payable to a specific person only, or to him for a specific purpose.

28. A **qualified indorsement** is one in which the indorser qualifies his indorsement by the use of the words "without recourse" or some similar phrase. The words "without recourse" mean that the indorser declines responsibility as a party to the bill and merely transfers title to it to the next holder by his indorsement. It does not affect the negotiability of the bill, although its exchange value may be affected.

29. A **conditional indorsement** is one that makes payment conditional on the happening of some specified event. Such indorsements, while allowable in American and English law, are not recognized in the European codes.

30. An **irregular indorsement** is one made by a person not the holder of a bill. It is called in Great Britain a *quasi indorsement*, and on the continent an *aval*. On the continent, it is customary to write an *aval* on the face of a bill. The purpose of such indorsements, in the case of bills of exchange, is usually to increase their negotiable value by guaranteeing their payment to subsequent indorsers. The obligation assumed by an irregular indorser depends on the

relation he bears to the bill and to the other indorsers, an is a matter of law.

31. Name of Payee or Indorsee Misspelled.—If, in bill that is payable to order, the name of the payee o indorsee is misspelled or incorrectly written, he should firs indorse exactly as it is written on the bill and then write hi correct name with his title or designation, if any, underneath

32. Order of Indorsements.—When there are two o more indorsements on a bill, each indorsement is suppose to have been made in the order in which it appears, an they should, so far as possible, be written in such order.

33. Place for Indorsements.—An indorsement writ ten on the face of a bill is valid, but the usual place for a indorsement is across the back of the bill. In America, it i customary to write the indorsements across the back of th left end of a bill; in foreign countries, it is customary t write them across the back of the right end, bringing th first indorsement across the back of the signature of th drawer of the bill.

34. Allonge.—When there is no more room on a bil for further indorsements, a slip of paper called an **allong** may be attached to the bill and indorsements may be writte on this. In order to prevent fraud and to show that th allonge is a part of the original bill, the first indorsement o the allonge should begin on the bill itself and end on th allonge in such a way as to make it difficult or impossible t remove the allonge from one bill and attach it to another In some countries, this is a requirement of the law, and it i therefore safer to follow this rule in all cases where a allonge is necessary.

35. Date, Consideration, Order.—The French cod requires that an indorsement shall be dated, shall state th consideration and the indorsee, and shall be to order. Th omission of any of these requisites in an indorsement mad in France has the effect of making it a "procuration" or a agency indorsement. An agency indorsement does no

Pay Henry Jones or order
John Smith

PAY SIXTH NATIONAL BANK
OF SCRANTON, OR ORDER
HENRY JONES

Henry Jones

PAY REDMOND & CO.
NEW YORK, OR ORDER
SIXTH NATIONAL BANK
OF SCRANTON, PA.
WILLIAM B. SYKES, CASHIER

William B. Sykes, Cash.

PAY PARR'S BANK, LTD.
OR ORDER

Redmond & Co.

(a)

All indorsements are special and are properly signed

John Smith
Henry Jones

PAY NATIONAL BANK OF
SCRANTON, PA., OR ORDER
WILLIAM SKINNER

PAY CITIZENS BANK OF
NEW YORK, OR ORDER
ALL PREVIOUS INDORSE-
MENTS GUARANTEED
NATIONAL BANK
OF SCRANTON, PA.
FREDERICK L. FOSTER
CASHIER

PAY PARR'S BANK, LTD.
OR ORDER
CITIZENS BANK OF
NEW YORK
FRED. SIMMONS, CASHIER

Fred Simmons, Cash.

(b)

Indorsements 1 and 2 are in blank; 3 ... also

John Smith
Henry Jones

PAY NATIONAL BANK OF
SCRANTON, PA., OR ORDER
WILLIAM SKINNER

Wm. Skinner

PAY CITIZENS BANK OF
NEW YORK, OR ORDER
NATIONAL BANK OF
SCRANTON, PA.
FREDERICK L. FOSTER
CASHIER

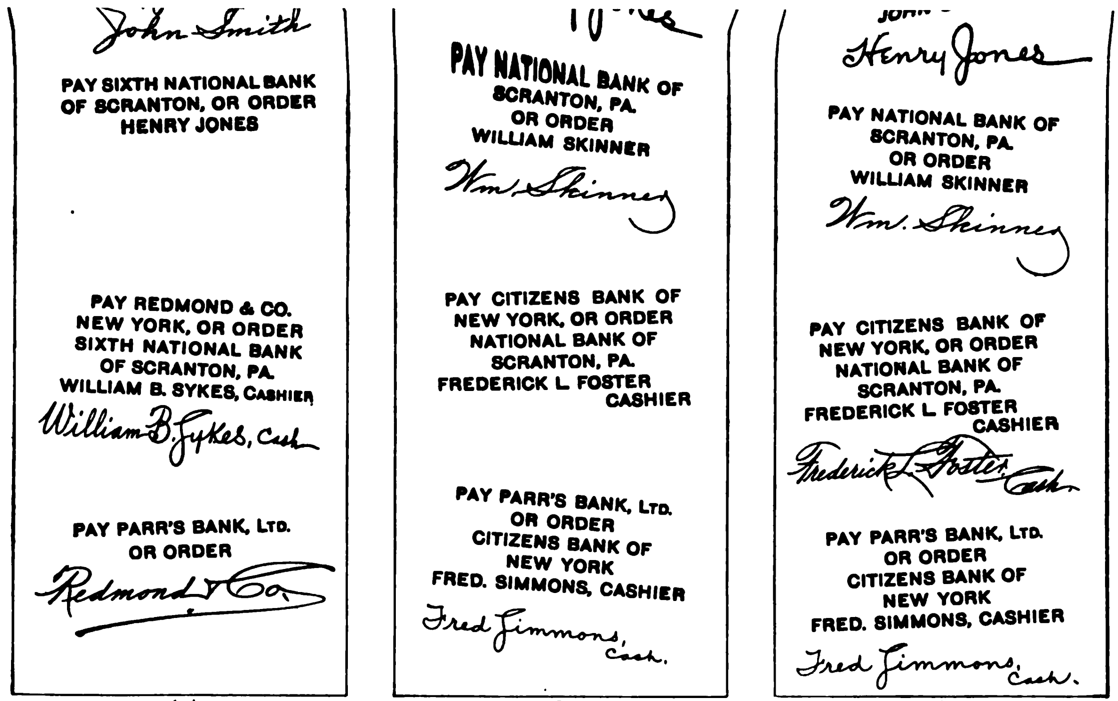
Frederick L. Foster, Cash.

PAY PARR'S BANK, LTD.
OR ORDER
CITIZENS BANK OF
NEW YORK
FRED. SIMMONS, CASHIER

Fred Simmons, Cash.

(c)

Indorsements 1 and 2 are in blank; 3, 4, and 5 are special and properly signed



(a) Returned for written indorsement of Henry Jones

(b) Returned for written indorsement of National Bank of Scranton

(c) Returned for written indorsement of John Smith

FIG. 4

negotiate a bill; it merely makes the holder an agent for its collection. Consequently, the indorsement of a bill drawn on France must conform to these requirements to be negotiable. Germany, England, America, and other countries do not make such requirements, although it is customary in Europe to use the words "value received" or their equivalent, on an indorsement and to date it.

36. Indorsements in Writing.—The laws of all foreign countries require that the holder of a bill sign his indorsement in writing, while in America an indorsement by rubber stamp is allowable. In the case of checks and inland bills issued in foreign countries and negotiated in America, the indorsements should be written as shown in Fig. 3 (*a*), (*b*), and (*c*). Fig. 4 (*a*), (*b*), and (*c*) shows incorrect forms of the same indorsements. An examination of the different indorsements will show that the payee and every subsequent holder that acquires possession through a special indorsement that has been signed must indorse in writing, and that a special indorsement by rubber stamp following a blank indorsement, if unsigned, acts as a blank indorsement itself, and therefore does not require a written signature. If the last indorsement of a bill indorsed as in Fig. 3 (*b*) is signed in writing, it is sufficient; but it is better in all cases that bankers should follow the rule indicated in Fig. 3 (*a*) and (*c*). Owing to the fact that stamped indorsements are valid in America, officers of inland banks frequently fail to sign their names beneath the stamped indorsements. In such case, a foreign-exchange banker sometimes considers himself justified in supplying the missing signature and guaranteeing all previous indorsements. This is done to save delay.

37. Indorsements of Married Women, Etc.—A bill drawn to the order of a married woman, as Mrs. John Smith, should be indorsed by Mrs. Smith writing her full name, as Ann Smith, wife of John Smith, or widow of John Smith; but the indorsement as Mrs. John Smith has generally been accepted, although in the United Kingdom such an indorsement would require to be guaranteed. In the United

Kingdom, when the payee or indorsee of a bill is described as Mr. or Mrs. or Miss, the indorsement must be the simple name, and the prefix or title, Mr., Mrs., Miss, must be dropped, unless the indorsement is guaranteed, as explained above.

38. Examination of Signatures and Indorsements. It is essential in handling foreign bills of exchange that the exchange clerk should see that all signatures and indorsements are by principals or their duly authorized agents. Some commercial and manufacturing institutions in America are very careless in this matter and allow clerks to sign and indorse drafts for collection, using their initials. It is always proper for a bank clerk to inquire by what authority a person or clerk is signing for a house or for his principal. If a person has the authority to sign checks, it may generally be assumed that he has the right to sign in the case of foreign bills. The safest way, however, is to know positively in what capacity the person is signing, and whether he has the authority to sign and indorse.

DUTIES OF THE HOLDER OF A BILL

39. The duties of the holder of a bill in regard to (1) its presentation for acceptance or payment, (2) its protest for dishonor, and (3) notice of its dishonor, whether by non-acceptance or non-payment, are determined by the law of the place where the act is done or the bill is dishonored.

PRESENTATION FOR ACCEPTANCE AND PAYMENT

40. Object of Presenting for Acceptance.—A bill that is payable at a fixed time after date is presented for acceptance in order to secure the liability of the drawee; that is, his written agreement that he will pay it when due. A bill payable at a fixed time after sight is presented for acceptance to secure the liability of the drawee and to establish the date of its maturity.

41. Time for Presentation.—1. English and American laws require that a bill payable after sight shall be presented for acceptance within a reasonable time; and in determining what is a reasonable time, regard is had to the nature of the bill, the usage of the trade with regard to similar bills, and the facts of the particular case. By the German Exchange law (Art. 19), if no time is fixed for presentation, it must be presented (for acceptance and payment) within 2 years of its date. By the French code (Art. 160), as amended May 3, 1862, bills payable after sight are divided into classes, according to the places where they are drawn and payable, and definite limits of time for presentation are fixed, varying from 3 months to 1 year.

2. A domiciled bill must first be presented to the drawee for *acceptance*, whether or not there is sufficient time to have it forwarded to the place of domicile for presentation at maturity. It is clear that otherwise it will not be paid at its domicile because the acceptance of the drawee is the proper authority for its payment.

3. A bill must be presented for *payment* on the day on which it falls due, and where days of grace are allowed, the third day of grace is the due date. If a domiciled bill cannot be presented at place of payment until after its maturity (for example, a sight bill drawn on Liverpool and domiciled in London), the acceptance of the drawee holds until it is so presented, unless unnecessary delay in presenting for payment can be shown.

4. A bill payable at a fixed time after date, if not presented for acceptance before maturity, becomes payable on demand.

42. Qualified Acceptance.—In Continental Europe generally, a holder cannot decline a partial acceptance of a bill (that is, an acceptance of part of the full amount of the bill); but any other qualification of his acceptance by the drawee is equivalent to non-acceptance. In America and England, other forms of qualified acceptance are allowable, and may be taken.

43. Form of Acceptance.—The form usually required is for the drawee to write his name across the face of the bill under the word "Accepted," writing the date of acceptance also. In England and Germany, the signature alone has been held sufficient.

PROTEST FOR DISHONOR

44. The **dishonoring** of a bill is its non-acceptance and or non-payment by the drawee. A **protest** is the certificate of a notary that a bill has been presented and dishonored. Noting is the first step in protesting, and is made by the notary. It consists of making a note or minute of the fact of its dishonor on the bill at the time of its presentation and dishonor. The second step is the drawing up of the protest. In England, it is sufficient to note the dishonor of *inland* bills, without the formal protest; but *foreign* bills must be protested. In America and England, the holder has recourse against the drawer and indorsers for non-acceptance; but under the Continental codes he can protest for non-acceptance and demand security from the drawer and indorsers until maturity, or he may claim repayment with costs from the previous indorsers. In America and England, after protest for non-acceptance, the protest of a bill for non-payment may be dispensed with in some cases. Under the Continental codes, the holder is *required* to present the bill again at maturity and protest for non-payment, if unpaid. In America and England, the protest of a bill for non-payment must be made on the due date; in Germany, it must be made not later than the second day after the due date; in France, it must be made the day after it is due.

It should always be the aim of the last holder of a bill to obtain its payment without unnecessarily running up expenses for notary's fees against the drawer and indorsers. Consequently, a banker will at times exercise discretion in protesting a bill for non-acceptance or non-payment, first noting for protest, then cabling for instructions to the drawer or previous holders. His knowledge of the standing of the drawee will decide his action.

NOTICE OF DISHONOR

45. Notice is the formal notification sent to the drawer and indorsers that a bill has been dishonored. In England and America, notice is generally required to be sent the day following the protest. In Germany, it must be sent within 2 days after. In France, the time allowed is governed by the distance; for instance, it must be given within 15 days of date of protest if the drawer or indorser lives within 5 myriameters. When a bill drawn in France and payable in England is protested for non-acceptance, the holder has 1 month in which to give notice of protest to the drawer and to a French indorser. In Spain, notice of dishonor by non-acceptance is not required.

MATURITIES

46. The **maturity,** or **due date,** of a bill is determined by the law of the place where it is payable. In the United Kingdom and in some states in America, 3 days of grace are allowed; in France, grace is not allowed; in Germany, the holding banker may, at his option, allow 2 days. When a bill payable after sight is dishonored by non-acceptance, its due date is figured from the day of its noting or protest, whether on a later presentation it is accepted or not. Under French law, if an acceptance is not dated, its maturity is figured from the date of the bill, and this is generally true everywhere. In France, a check drawn and payable in the same place must be presented in 5 days, and a foreign check in 8 days; otherwise, the holder has recourse only against the drawer.

47. Stale, or Overdue, Checks.—A check must be presented for payment within a reasonable time, usage and the facts in each particular case determining what is a reasonable time. In England, a case is cited in which a check was considered *stale* that was not presented within 2 months after date. An English authority says: "A banker to whom

an overdue or stale check is presented for payment is not bound to cash the same without consulting the drawer." "Age may be a cause of suspicion, but not of avoidance."

CURRENCY AND SUM PAYABLE

48. **A bill drawn in a different currency** from that of the country on which it is drawn is payable at the rate of exchange for that currency in the city where paid on the day of payment. For example, a bill drawn in America in sterling on Vienna will be paid in kronen at the rate of exchange on London in Vienna on the day of payment. The drawer, however, may fix a rate of exchange at which it is to be paid, if not prevented from doing so by agreement with the drawer. When there is a discrepancy between the words and the figures of the amount of a bill, the sum expressed by the words is generally payable. Usage, however, and in some instances the law, provides that in case of discrepancy the smaller sum is the amount payable.

ALTERATION OF A BILL

49. **The material alteration of a bill** after delivery without the assent of all parties to it makes it void. Any alteration of the date, the sum payable, the time of payment, the place of payment, or the addition of a place of payment to an acceptance without the acceptor's permission, is considered a material alteration. In England, to change a bill drawn to bearer and make it to order would not be considered a material alteration; but in Germany such a change made on a check or the cancelation of the words "or bearer" makes it void.

IDENTIFICATION

50. **The identification of the holder of a check** is required in America, but is not generally required in Europe. In America, it is the universal custom, having the force of law, for a bank to require the holder of a check whose

identity is unknown or unsatisfactory to bring proper evidence of the same. The usual way is to require either that the indorsement or guarantee of a responsible person known to the bank shall be given, or that the check shall be passed through

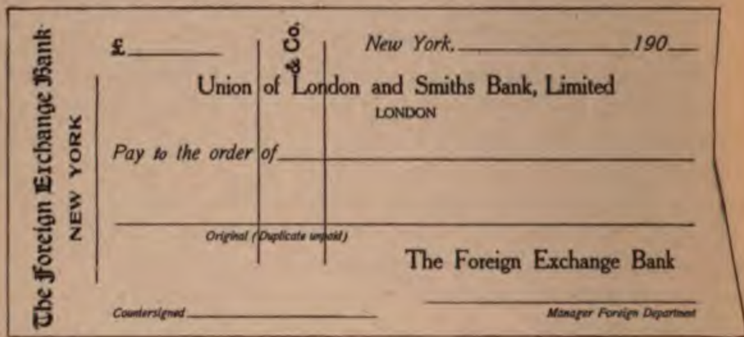

The Foreign Exchange Bank
NEW YORK
£
& Co.
New York, 190
Union of London and Smiths Bank, Limited
LONDON
Pay to the order of
Original (Duplicate unpaid)
The Foreign Exchange Bank
Countersigned
Manager Foreign Department

FIG. 5

some other bank. In the United Kingdom, uncrossed checks, and in Europe generally all checks, are practically payable to bearer. Possession is considered in itself evidence of identity. This relieves the drawee bank from liability and places it on the drawer. In international banking, however,


The Foreign Exchange Bank
NEW YORK
£
New York, 190
Union of London and Smiths Bank, Limited
LONDON
Pay to the order of
Original (Duplicate unpaid)
The Foreign Exchange Bank
Countersigned
Manager Foreign Department

FIG. 6

it is the usage for the drawee bank to pay only those checks of whose issue it has been advised by the drawer. This affords the drawer a measure of protection. If the purchaser of a check is a private person, the issuing bank sometimes

protects itself further by obtaining from him a specimen signature of the payee. This signature is mailed to the drawee with the advice, and obliges the drawee to compare the payee's indorsement with the specimen.

51. Crossed Checks.—The difficulty just stated has been overcome in the United Kingdom by the use of what are known as **crossed checks**; this form of check being paid by banks only in account, never in cash. Crossed checks are defined as follows:

1. Where a check bears across its face an addition of (*a*) the words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable" (see Fig. 5); or (*b*) two parallel

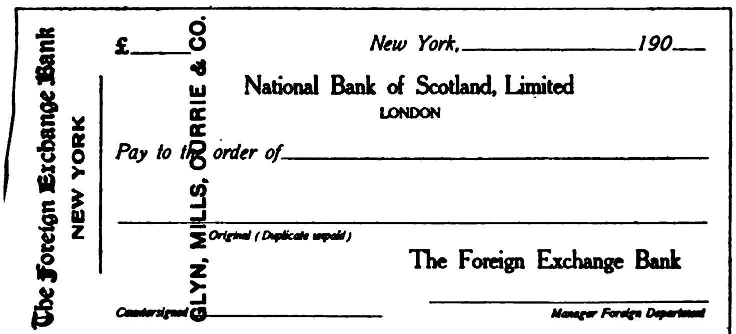

The Foreign Exchange Bank
NEW YORK
GLYN, MILLS, CURRIE & CO.
£____ New York, ________ 190__
National Bank of Scotland, Limited
LONDON
Pay to the order of ________
Original (Duplicate unpaid)
The Foreign Exchange Bank
Countersigned ________
Manager Foreign Department

FIG. 7

ansverse lines simply, either with or without the words ot negotiable" (see Fig. 6); that addition constitutes a ossing, and the check is crossed generally.

2. Where a check bears across its face an addition of e name of a banker, either with or without the words "not gotiable" (see Fig. 7), that addition constitutes a crossing, d the check is crossed specially and to that banker.

A check crossed generally will be paid by the bank on ich it is drawn only when presented by another bank, less the payee or indorsee presenting it is a depositor of e bank, and then not in cash but only by credit in account.

A check crossed specially will be paid by the bank on which it is drawn only when presented by the bank to which it is specially crossed, or by the agent of that bank "for collection."

The following rules govern the crossing of checks:

1. A check may be crossed generally or specially by the drawer.

2. When a check is uncrossed it may be crossed generally or specially by the holder.

3. A check that is crossed generally may be crossed specially by the holder.

4. When a check is crossed generally or specially, the holder may add the words "not negotiable."

5. When a check is crossed specially, the banker to whom it is crossed may again cross it specially to another banker, his agent "for collection."

6. When an uncrossed check or a check crossed generally is sent to a banker for collection, he may cross it specially to himself.

BILL STAMPS

52. A **bill stamp** is a stamp required by law to be affixed to bills of exchange and other orders for money. Bill stamps are required in almost every country outside of America. The amounts of these stamps vary in different countries, but their use is governed by the following rules:

1. When bills are issued in sets, only one bill of each set is required to be stamped, usually the first.

2. Bills domiciled in a different country from that on which they are drawn require stamps generally both in the country of acceptance and in that of payment.

3. Bills negotiated in other countries than those on which they are drawn or where they are payable require stamps generally in each country where negotiated. This stamp is called "*timbre de passage.*"

FOREIGN EXCHANGE

(PART 4)

CREDITS AND LETTERS OF CREDIT

DEFINITIONS AND OBJECT

1. A **credit** is the contract of a banker to place a specified sum at the disposal of a client, subject to certain requirements stated therein. When the contract is made, the banker is said to have *opened a credit* for account of his client. This contract may require the banker to make the credit available by drafts on himself or on another banker (called the *accepting banker*). If the latter, then the credit has not been properly opened until the opening banker has advised the accepting banker of the terms and conditions of the credit and of the name of the drawer of the drafts (called the *accredited party*). The evidences of the contract are a guaranty given by the client, and usually, though not always, a letter of credit issued by the banker.

A **letter of credit** is a letter issued by a banker authorizing a specified person, firm, or association, known as the accredited party, to value (draw) on one or more bankers for an amount or for amounts not exceeding in all a stated sum, and guaranteeing the acceptance and payment of those drafts if drawn in compliance with the term specified in the letter.

The object for which credits are opened and letters of credit are issued by bankers is to facilitate the financing of commerce and travel, by providing merchants, travelers, and others with the means by which to obtain funds.

COMMERCIAL CREDITS

FORMS AND FEATURES

2. There are two classes of credits, known as *commercial credits* and *travelers' credits*, the name of each class indicating its particular object.

Commercial credits are opened by mail or cable. A letter of credit is usually issued for a credit that is opened by mail, but rarely for one that is opened by cable.

A **commercial letter of credit** is a letter issued and addressed to the accredited party by the bank that opens the credit. It authorizes the party to draw on that bank or on another bank under certain specified terms and conditions and guarantees the acceptance and payment of all drafts that are drawn in compliance with those terms.

When a letter of credit is issued, it is delivered to the importer or the client for whose account the credit has been opened, and he in turn sends it to the accredited party as evidence of his authority to draw against the credit.

A cable credit, also a mail credit for which no letter of credit is issued, is generally advised by the opening bank to the accepting bank only; and the accredited party is then merely informed by his customer that a credit has been opened with a certain bank. Banks that do an extensive commercial credit business, however, frequently arrange special cable words, for the advice of credits, with banks in cities where the accredited parties will negotiate their drafts. By this means, they cable the advices of credits direct to those banks, which is practically equivalent to issuing letters of credit to the accredited parties.

3. Commercial credits are described as **confirmed** or **unconfirmed credits**, a confirmed credit being one that has also been guaranteed by the accepting bank, and an unconfirmed credit one that has no such additional guarantee. Although a letter of credit is the issuing bank's confirmation

Application for Commercial Credit

______________________, 190__

Messrs.______________________________

GENTLEMEN:

Please $\frac{\text{open}}{\text{issue}}$ by______________________________
Mail or cable

COMMERCIAL CREDIT

on______________________________for______________________________
Foreign city — Foreign amount

in favor of______________________________
Beneficiary

for account of______________________________
Name of firm ordering credit

Available by drafts at______________________________
Sight, sixty, ninety days' sight, etc.

Documents to be attached to drafts:______________________________
State documents required

for shipments of______________________________
Kind and quantity of merchandise

____

per______________via______________to______________
Steamer or sailing vessel — Route — Name of port of entry

Shipments from $\frac{\text{seaport}}{\text{inland town}}$ to be completed not later than______________

Insurance is to be covered by______________________________

This credit is to remain in force until______________________________

Remarks:______________________________

____

____

____

Yours truly,

____

FIG. 1

Commercial Letter of Credit

FOREIGN EXCHANGE BANK

No.________ Amount________ Expires________

NEW YORK,________________190__

____

____

DEAR SIRS:

We hereby authorize you to value on

____

at ________________ sight, for any sum or sums not exceeding in all

____

for account of ________________________________

for ________ invoice cost ________ of ________________

to be shipped per ________________ to ________________

The conditions and terms on which this credit is issued, are:
The bills of lading are to be filled up to the order of________________
________ The insurance is to be covered by________________
The credit will become void if not used before ________________
Immediately on completion of each shipment made within the terms of this credit, a copy of the invoice and all the copies but one of the relative bills of lading must be forwarded to ________________
The remaining bill of lading must be forwarded by the steamer carrying the goods, to ________________
A certified invoice is to be sent to ________________
Bills drawn under this credit must bear on their face the word "drawn under Credit, No. ________ of the Foreign Exchange Bank New York, dated ________ 190__." The amount of each bill negotiated under this credit must be entered on the back hereof together with the date of negotiation and the name of the bank negotiating the same.

We hereby agree with the drawers, indorsers, and bona-fide holders of bills drawn under this credit and in compliance with its terms, that the same shall be duly honored on presentation at the office of

____

Yours truly,

____

FIG. 2

of the opening of a credit, it is not regarded by commercial houses generally as a confirmed credit until the accepting bank has also guaranteed the acceptance and payment of drafts drawn under it.

A confirmed credit, like a certified check, is not revocable, while an unconfirmed credit may be revoked unless otherwise provided, or the acceptance or payment of drafts drawn under it may be refused by the accepting bank of its own will. Both the revocation of credits and the refusal of drafts are rare occurrences; but to avoid this possibility, some shippers require confirmed credits.

Fig. 1 shows a form of application for a commercial credit. It contains all the requirements of the importer that are to be incorporated in the credit.

Fig. 2 shows a form of commercial letter of credit. On the back of the letter, Fig. 3, is a space in which the several

Bills drawn under this Credit No. ____________

DATE	PLACE	NEGOTIATED BY	AMOUNT IN WORDS	AMOUNT IN FIGURES

FIG. 3

bills drawn against it are to be entered by the bank that negotiates them, at the time of their negotiation.

Fig. 4 shows a form of guaranty given by the person, firm, or corporation, for account of whom the credit is opened. This guaranty is the basis on which the bank opens the credit and delivers the letter of credit to the importer.

4. Essential Parts of a Commercial Credit.—An examination of the blanks illustrated in Figs. 1 and 2 shows that they cover the following essential points:

1. The four principal parties to a commercial credit; the bank that opens the credit; the paying or accepting bank

(drawee) on which the exporter or shipper is authorized to draw; the exporter or shipper in whose favor it is opened; and the importer for whose account it is opened. In the case of issuing banks in interior cities like Chicago, or St. Louis, the forwarding agents at ports like New York, Boston, or Philadelphia may also be named.

2. The terms on which the bills are to be drawn against the letter; namely, whether at sight, or at a given number of days or months after sight or date.

3. The amount of the credit.

4. The amount for which each bill may be drawn; that is, whether for full invoice value, or for, say, 75 or 90 per cent. of it, and whether freight and insurance are to be included.

5. The destination of goods, and how they are to be shipped.

6. To whose order the bills of lading are to be drawn, generally to the order of the issuing bank.

7. Where the insurance is to be placed.

8. When the credit expires.

9. The disposition of the invoice and all other documents.

10. The reference in the bill to the particular letter of credit against which it is drawn.

Each banker prepares a form of letter to suit his own ideas as to wording and order, hence there are slight differences in them; but the general plan is the same in all. The instructions given by the importer and stated in the letter also vary considerably. For example, in paragraph 4, the space might be filled in to read "invoice cost only," or "invoice cost, freight, and insurance," or "three-fourths cost and insurance," or some other form.

There are differences also in the forms used for the guaranty. Some bankers, however, use a receipt and contract attached to a copy of the letter instead of a guaranty.

ADVANTAGES OF COMMERCIAL CREDITS

5. In many countries, because of their advantages, commercial credits are required by exporters as a condition to the shipment of goods ordered, but they also afford advantages to the importer.

6. Advantages to the Exporter.—1. The exporter has practically made a cash sale; that is, he will receive cash immediately on fulfilling the conditions of the credit, either for the full amount of his invoice or for so much of it, indicated in the credit, as he has agreed with the importer to accept.

2. The responsibility and guaranty of payment of the issuing bank gives a standing to the exporter's bill that documentary bills ordinarily do not possess. For this reason, he can readily negotiate his bill at any banker's (unless restricted by the letter to a particular bank), and should therefore obtain the most favorable rates of exchange.

3. As soon as the exporter has negotiated his bill, the financial responsibility is at once shifted to the issuing bank. This is not the case with ordinary documentary bills, the drawer of which is responsible for their non-acceptance and or non-payment.

7. Advantages to the Importer.—1. The importer can generally obtain more favorable prices from the exporter than he otherwise could.

2. He can place advance orders and thus afford the exporter ample time to obtain the goods or to manufacture them; and at the same time he can restrict the time of their shipment by making the credit expire at a reasonable time.

3. He can protect himself, on agreement with the exporter, by limiting the amount for which bills may be drawn to a certain percentage of the invoice value of the merchandise.

4. By arrangement with the issuing bank, he may have the bills drawn payable at such a time, after sight or date,

as will enable him, on arrival of the goods and on signing a trust receipt, to obtain possession of the whole or part of each invoice (as he requires), to prepare them for market, and even to dispose of them before the maturity of the bill.

TRUST RECEIPTS

8. Purpose of Trust Receipts.—A trust receipt is the receipt and contract of the importer given to the bank when either the whole or such part of a shipment as is described in the trust receipt has been delivered to him before he has made settlement for the relative draft. There is no established form in use. Fig. 5 shows a general form; in Fig. 6 is shown a form for the use of manufacturers that import raw or manufactured materials and make them over in such form that their identity is lost, so that it is practically impossible for them to be held specifically in trust for the bank. Fig. 7 illustrates a form used for the warehousing of the goods; while Fig. 8 shows a form used for delivery to a purchaser.

The purpose of the trust receipt is to make the importer morally as well as legally accountable for all goods delivered to him until they are paid for. Goods that have been warehoused in the bank's name under the form shown in Fig. 7, may be withdrawn by the importer as needed, on the order of the bank and against a further trust receipt. If a banker can identify the goods surrendered to an importer under a trust receipt, he can regain possession of them (replevy them) if necessary.

9. To Whom Credits Are Issued.—A bank may issue credits to those importers only of whose integrity and responsibility it is fully satisfied, and should require financial statements from them, from time to time, as is done in the case of those to whom ordinary loans are made.

In issuing such a letter of credit, a bank assumes a risk similar to that assumed in the loaning of money, for the following reasons: (1) It has loaned its credit to the importer, as the basis on which the exporter executes his order for

TRUST RECEIPT

(FOR DELIVERY TO PURCHASER)

Received from BROWN BROTHERS & Co., the following goods and merchandise, their property, specified in the Bill of Lading per__ dated________________________marked and numbered as follows:

In trust to deliver the same to______________________________
who have purchased the same for______________________________
payable in____
and to obtain from the purchaser the proceeds of the sale of the same.

In consideration of the delivery of said goods to $\frac{\text{me}}{\text{us}}$ in trust, as above, $\frac{\text{I}}{\text{we}}$ agree to deliver them immediately to the said purchasers, and to collect the proceeds of sale, and immediately deliver such proceeds to BROWN BROTHERS & Co., in whatever form collected, to be applied by them against the acceptances of BROWN, SHIPLEY, & Co., on $\frac{\text{my}}{\text{our}}$ account, under the terms of Letter of Credit No.____________ issued for $\frac{\text{my}}{\text{our}}$ account, and to the payment of any other indebtedness of $\frac{\text{mine}}{\text{ours}}$ to BROWN, SHIPLEY, & Co. or BROWN BROTHERS & Co. It is understood, however, that if such proceeds be in notes or bills receivable, they shall not be so applied until paid, but with liberty meanwhile to BROWN BROTHERS & Co. to sell or discount, and so apply net proceeds.

BROWN BROTHERS & Co. may at any time cancel this trust, and they may take possession of said goods until the same have been delivered to said purchasers and the proceeds of sale received from them, and thereafter of such proceeds, wherever the said goods and proceeds may then be found, and in the event of any suspension or failure or assighment for the benefit of creditors on $\frac{\text{my}}{\text{our}}$ part, or of the non-fulfilment of any obligation or of the non-payment at maturity of any acceptance made by $\frac{\text{me}}{\text{us}}$ under said Credit, or any other Credit issued by BROWN BROTHERS & Co. or BROWN, SHIPLEY, & Co. on $\frac{\text{my}}{\text{our}}$ account, or of any indebtedness on $\frac{\text{my}}{\text{our}}$ part to either of them, all obligations, acceptances, indebtedness, and liabilities whatsoever shall thereupon (with or without notice) mature and become due and payable.

Dated__________________ 190__

(Signed)________________________

£________________

FIG. 8

goods. (2) After the arrival of the goods, shipped on a time credit, by delivering all or part of them to the importer against a trust receipt, it has loaned him the value of the merchandise, for it has guaranteed and become liable for the acceptance and payment of the relative drafts.

COST OF COMMERCIAL CREDITS

10. Cost to the Importer.—For issuing a commercial credit, the bank charges a commission varying from $\frac{1}{4}$ to $1\frac{1}{2}$ per cent., according to its terms, the amount, the time, and the risk involved. The cost of a sight credit is the least, for it involves a minimum of risk to the banker, being taken up by the importer at sight; that is, on receipt of the documents with or without the draft. The cost of a time credit is higher, increasing with the time and the consequent risk, and an extra commission is charged for a confirmed credit. A six months' credit, for example, that costs the importer a commission of from 1 to $1\frac{1}{2}$ per cent., is equivalent to a loan at from 2 to 3 per cent. per annum, plus the rate of discount at which the bills drawn against the latter are negotiated.

11. Cost to the Issuing Bank.—Out of the commission charged to the importer the issuing bank must pay the drawee a commission of from $\frac{1}{16}$ per cent. upon all payments and acceptances under ordinary credits. An additional commission is generally charged for confirming a credit.

THE WORKING OF A COMMERCIAL LETTER OF CREDIT

12. The Importer: Obtaining the Letter.—Having made a financial statement satisfactory to the bank from which he wishes to obtain credits or otherwise satisfied its officers as to his responsibility, the importer arranges with the bank for the issue of letters of credit when needed. Having completed his purchase with the exporter in the foreign country, the importer fills out an application to the bank for a letter. This application contains the information necessary to the drawing of the letter, as already shown. When

the original has been drawn and signed, and the copy made, the importer signs the guaranty as shown, or a receipt attached to the copy, and receives the original letter. This original the importer then forwards to the exporter.

13. The Exporter: Using the Letter.—On receipt of the letter, the exporter prepares the goods and ships them as instructed. Having obtained all documents as specified in the letter, he then draws a bill of exchange on the drawee named in the letter, following instructions as to terms, amount, and wording. He then attaches certain documents to the bill as required by the letter, and negotiates it through some local bank. The instructions indicate what is to be done with the remaining documents. They are forwarded—generally by the exporter, sometimes by the negotiating bank—direct to the issuing bank or—in the case of an interior issuing bank—to its agents at the seaport. Some letters require that a certificate be attached to the bill, stating to whom these documents have been forwarded. The documents are divided, as a safeguard against delays that might result in transmission, if all were attached to the bill. By their division, also, the importer receives some documents before, or as soon as, the goods reach their destination. This enables him either to obtain the goods under trust receipt or to have them warehoused in the name of the bank immediately on their arrival, thus avoiding their removal by the customs authorities to what are called the *public stores*.

14. The Negotiating Bank.—The negotiating bank examines and compares the letter of credit, the bill, and the documents. If it is found that all requirements of the letter have been met, the bill is purchased. The amount of each bill, together with the date of its negotiation, is entered by the bank on the back of the letter. If it has not expired and is not exhausted, the letter is returned to the exporter. If exhausted or expired, it is kept by the negotiating bank and attached to the bill. The bill and attached documents are then forwarded by the bank direct or through some other bank to the drawee, according to the terms of the

letter. The bank that negotiates a bill drawn against a credit is responsible for the identity of the drawer; that is, it must know that he is the person in whose favor the letter has been issued. Beyond this it is only responsible for a critical examination of the bill and of the documents, to see that they are properly drawn and signed and comply in every respect with the requirements of the letter.

15. The Accepting or Paying Bank.—On receipt of the bill and attached documents, the drawee examines and compares them with his letter of advice or duplicate copy of the letter. He then accepts or pays the bill and charges it to the issuing bank. He advises that bank of the date and amount of the charge, and, in the case of time credits, forwards only the documents. In the case of sight credits, he may forward the bill also. A credit that has expired before it is used or exhausted is valueless, unless its time is extended by an order of the issuing bank sent to the drawee.

16. Bankers Not Responsible for Goods Described. Bankers concerned in issuing a commercial credit, or in negotiating, accepting, and paying bills drawn under it, do not assume responsibility for the quality or quantity of the goods shipped under it. Therefore, before placing his order and taking out his credit, the importer satisfies himself of the integrity and responsibility of the exporter and of his ability to fulfil his part of their contract; and the exporter, if he agrees to draw for a part of the invoice only, satisfies himself that the importer will settle for the difference according to agreement, without making unjust claims on him.

TRAVELERS' CREDITS AND INTERNATIONAL CHECKS

FORMS AND FEATURES

17. **A traveler's letter of credit** is a letter issued and addressed by a bank to one or more of its banking correspondents in other cities or countries, introducing the person named in it, known as the *accredited party*, and requesting the payment of funds to him on certain conditions, to an amount or amounts not exceeding in all a specified sum. Letters of credit are distinguished as *simple* and *circular*.

A simple letter of credit is one that is addressed to one or at most only a few specified banks, as shown in Fig. 9.

A circular letter of credit is one that is addressed to the correspondents of the bank in different parts of the world, named either in the letter itself or in a book or directory of correspondents furnished by the bank.

In Fig. 10 is illustrated a form of application for a letter of credit, and in Fig. 11 (*a*) and (*b*) is shown a form of a circular letter of credit in which the accredited party is authorized to value on the issuing bank. Fig. 12 (*a*) and (*b*) shows a form of a circular letter of credit in which the accredited party is authorized to value on another bank named.

A circular letter is generally printed from steel plates on water-marked or some other form of safety paper, or is so engraved as to make the alteration of it extremely difficult, if not altogether impossible. A simple letter is frequently prepared in the same way; but this is not so essential, because it is addressed and advised to only a few banks—ordinarily not more than five or six.

18. Essential Features of Travelers' Credits.—While there is no universal form of letter of credit, each

Letter of Credit, No. ____ **Amount** ________ **Expires** ________

Foreign Exchange Bank

NEW YORK, ______________________ **190**__

To ______________________________

____

____

____

DEAR SIRS:

We beg to introduce to you and to commend to your courtesies

____

to whom kindly furnish funds in sums as desired to an amount not exceeding in all ______________________________

against Demand Draft on ________
Each draft must be signed in your presence and the signature **compared** with the holder's signature, which has been mailed to you. **It must** also be marked "drawn under Letter of Credit, No.__________, **of the** Foreign Exchange Bank, New York, dated ______190____," and must be entered on the back hereof at the time of negotiation, **and** in detail as indicated.

We engage that such drafts shall be duly honored if **negotiated not** later than 190

Kindly purchase drafts at the current rate of exchange for **similar** demand drafts, and see to it that this Letter is canceled **and attached** to that draft by which it is exhausted.

We are, Dear Sirs,

Yours truly,

____

FIG. 9

CIRCULAR LETTER OF CREDIT

to

The Foreign Exchange Bank of New York

____________________ 190__

Please issue a Letter of Credit Foreign for £ stg. ______
Domestic " \$______

In favor of ____________________

To be in force until ____________________

To be paid for* ________

To be charged* ________

{*Write on the proper line the words "when issued" or "as used"}

(1) Domestic Letters are issued in Dollars only, and are available in the United States, Canada, the West Indies, Mexico, and Central America.

(2) Foreign Letters are issued in £ sterling on the __________, and are available throughout the world.

(3) One signature necessary for Domestic Letters, three for Foreign Letters.

L/Credit No.______

________ 190__

Signature

L/Credit No.______

________ 190

Signature

L/Credit No.______

________ 190__

FIG. 10

Redmond & Co.

CIRCULAR LETTER OF CREDIT

$5.000.#

No. 00000

New York January 2nd 190

NOT TO EXCEED ____ DOLLARS U.S. CURRENCY

To our Correspondents:

Gentlemen:

We beg to introduce to you and to commend to your courte

James Brown and/or Margaret Brow

to whom kindly furnish funds in sums as desired up to an aggreg

amount of Five thousand Dollars U.S. Curr

against Demand Drafts on Redmond & Company, New Yo

We engage that such drafts will meet with due hon

in New York if negotiated not later than October 1st 19

and if marked "Drawn under Redmond & Company's Letter of Cre

No. 00000," upon the condition that the amount of each dra

negotiated by you shall have been inscribed on the back of this Let

the draft signed in your presence and the signature carefu

compared by you with holder's signature appearing below.

Kindly purchase drafts at the rate at which you b

demand drafts on New York, and please see to it that the prese

Letter be cancelled and attached to the draft which exhausts th

Credit.

We are, Gentlemen:

Your Obedient Servants

Holder's Signature

James Brown

Margaret Brown.

Redmond & Co

CANCELLED

FIG. 11 (a)

PAYMENTS.

TE PAID	PAID BY	DOLLAR AMOUNT WRITTEN IN WORDS	AMOUNT IN FIGURES
4 1904	LEE. HIGGINSON & CO., BOSTON.	One hundred dollars	$ 100.-
8 04	First Nat'l Bank, Portland, Me.	One hundred & fifty d-	150-
12th	CANADIAN BANK OF COMMERCE MONTREAL.	Two Hundred Dollars	200-
18th	Commercial National Bank. Detroit.	One hundred dollars	100
28th 04	First National Bank, Chicago.	Three hundred $^{no}/_{100}$ dollars	300-
2nd	Union Trust Co., St. Louis, Mo.	Fifty Dollars	50.-
4th	MERCHANTS NAT'L BANK, OMAHA, NEBR.	Two hundred & fifty dollars	250
12	First Nat'l Bank, Denver, Col.	Seventy five Dolls	75-
20	FIRST NAT'L BANK, PORTLAND, ORE.	Two hundred Dolls	200.-
25-	Canadian Bank of Commerce Vancouver, B. C.	Six hundred dollars	600.
11	Yokohama Specie Bank Ltd., Honolulu.	Two hundred dollars	200.-
27	Chartered Bank of India, Australia & China, Manila, P.I.	Eight hundred dolls	800.-
/8	BANK OF CALIFORNIA SAN FRANCISCO.	One hundred dollars	100.-
26	Farmers & Merchants Nat'l Bank Baltimore.	Two hundred fifty	250.-
18th	Banco Nacional de Mexico Mexico City.	One hundred & fifty	150-
17	Royal Bank of Canada, Havana.	Two hundred doe	200
2	FRITZE, LUNDT & Co. SAN JUAN, P. R.	One hundred seventy five Dollars	175-
27th	EXCHANGE NATIONAL BANK TAMPA, FLA.	Two hundred dollars	200
10/04	First National Bank, St. Augustine, Fla.	Seventy Dollars	70.
29th	RIGGS NAT'L BANK WASHINGTON, D. C.	Two Hundred and fifty	250
21	Redmond & Co. PHILADELPHIA.	Two hundred fifty doll	250=
25th 04	Redmond & Co. NEW YORK.	Three hundred and thirty dollars	330.
		All paid $	5000.-

Fig. 11 (b)

Redmond & Co.

CIRCULAR LETTER OF CREDIT £500 —

№ 00000 New York January 2d 1904

To our Correspondents:

Gentlemen:

We beg to introduce to you and to commend to your courtesy John J Smith and Mary M Smith to whom kindly furnish funds in sums as desired up to an aggregate amount of Five hundred Pounds Sterling against Demand Drafts on Parr's Bank Limited London.

We engage that such drafts will meet with due honor in London if negotiated not later than July 1st 1904 and if marked "Drawn under Redmond & Company's Letter of Credit № 00000" upon the condition that the amount of each draft negotiated by you shall have been inscribed on the back of this Letter, the draft signed in your presence and the signature carefully compared by you with holder's signature appearing below.

Kindly purchase drafts at the rate at which you buy demand drafts on London and please see to it that the present Letter be cancelled and attached to the draft which exhausts the Credit.

We are, Gentlemen,

Your Obedient Servants,

Holder's Signature

John J Smith

Mary M Smith

CANCELLED

NOT TO EXCEED [illegible] POUNDS STERLING

FIG. 12 (a)

PAYMENTS.

TE PAID	PAID BY	STERLING AMOUNT WRITTEN IN WORDS	AMOUNT IN FIGURES
1904	First National Bank, Chicago.	Ten pounds — £	10.–
,1904	CANADIAN BANK OF COMMERCE, Vancouver.	One hundred pounds	100.
190	The First National Bank of Hawaii at Honolulu	Five pounds Sterl	5.
.11th	Chartered Bank of India, Australia & China, Manila, P.I.	Twenty pounds	20.–
15	BANQUE DE L'INDO-CHINE HONGKONG	Fifteen Pounds	15.–
3rd	THE YOKOHAMA SPECIE BANK, YOKOHAMA	Twenty five	25–
20.	MERCANTILE BANK OF INDIA BOMBAY.	Five Pounds –	5 –
15	ANGLO-EGYPTIAN BANK, Alexandria.	ten pds	10 –
6 1904	Imperial Ottoman Bank, Cairo	Five pounds	5.
27	SEBASTI & REALI, Rome.	Fifty pounds	50.–
1904	Volksbank, Interlaken.	Three pounds	3 –
4/6/04	THOS. COOK & SON, GENEVA	Twelve Pounds St.	12 –
ai 1904	Paid by Anglo-Austrian Bank, Vienna.	Thirty five pds st	35/–
15	Dresdner Bank, Berlin.	Twenty Pounds	20.–
20	Direction der Disconto-Gesellschaft, FRANKFURT a. M.	Thirty Pound Sterling	30 –
23rd	Filiale der Dresdner Bank in Hamburg.	Eight pounds	8
7/04	KJOBENHAVNS HANDELSBANK, Copenhagen	Five Pounds Sterling	5
13	PARRS BANK, LONDON	Forty pds —	40
14	AMSTERDAMSCHE BANK.	Five pounds	5
1904	PAYÉ PAR CREDIT LYONNAIS, Paris.	Ten pounds sterling	10 –
9th	THOS. COOK & SON, Brussels.	Thirteen —	13 –
22	PARR'S BANK ltd., Liverpool.	Fifteen pounds	15 –
23	Bank of Ireland, Queenstown.	forty pounds	40 –
30th 04	Redmond & Co. NewYork	Five pounds sterling	5.–
		£	496.–

FIG. 12 (b)

176—11

bank adopting its own form, yet all letters of credit have the same essential features. In some, the accredited party is authorized to draw; in others, the paying banks are requested to pay him against his receipt in duplicate.

An examination of the forms illustrated reveals the following features:

1. The circular letters are issued to two persons, both or either being authorized to receive money. Letters may be issued to one person only or to two or more persons.

2. The first form is issued in dollars, and the other in pounds sterling. Letters of credit may be issued in francs or marks or other currency.

3. Each is limited as to the total amount that may be

Foreign Exchange Bank

NEW YORK, ____________ 190__

To our Correspondents:

This will serve to identify

____

the holder of our circular letter of credit No ________

Holder's signature

____

____________________ ____________________
Manager Foreign Department

Fig. 13

drawn against it, and as to the time within which it may be used.

4. Each draft drawn against the letter must state plainly that it is drawn against ______ letter of credit No. ______. Some banks require that the date of issue of the letter also be specified on the draft.

5. The amount of each draft must be indorsed on the letter by the negotiating bank, and the letter itself must be surrendered to the bank with the final draft that exhausts it.

6. The signatures of the accredited parties, which serve as their identification, are placed by them on the letter itself. Another form of identification has been very generally adopted in recent years as being safer than the former. It consists of a separate identification card, as shown in Fig. 13. When this form is used, the wording of the letter of credit is changed to read "compared by you with holder's signature as found on separate card of identification." In a simple letter the signature of the accredited party is mailed to each bank to which the letter is addressed.

7. The correspondents are requested to negotiate drafts at the current rate of exchange for demand drafts on London. In some letters, they are requested to collect all charges from the accredited party; in others, nothing is said of either.

19. **Lists of Correspondents.**—Banks that issue letters of credit furnish lists of the correspondents that will cash them. These lists are printed either on the letter itself or in a separate book. The latter form is always used when the signature of the accredited party is not affixed to the letter itself, but is on a separate card that is made part of this book.

20. **Printed Instructions for Travelers.**—The traveler is also furnished with printed instructions in regard to the forwarding of mail, cables, etc.; reporting the loss of a letter of credit; the extension of the letter beyond its fixed date of expiration; and the application for the issue of additional letters. He is also given the names of reliable firms that will attend to the storage and the forwarding of baggage, etc.

21. **Attention Paid to Travelers by Correspondent Banks.**—Banks that make a specialty of handling letters of credit give special attention to the receiving and forwarding of mail and telegrams. In cities like London, Paris, and Berlin, where travelers are most numerous, banks also, as a rule, provide a room or rooms where travelers may receive and open their mail, write letters, and read the latest newspapers. The traveler is recommended, by the bank whose

letter he carries, to select one foreign bank in whose care all mail addressed to him shall be sent. He is also requested to keep that bank informed as to his movements, so that mail may be forwarded and cable messages repeated. All of this is attended to by the banks without charge, except for expenses actually incurred, such as postage and telegraph charges.

22. Cable Cipher Codes for Travelers.—The issuing bank often furnishes with each credit two or more copies of a pocket cipher code, containing several hundred words, each bank having its own special code. The traveler takes one copy with him and leaves one at home or at his office. This code enables him to cable long messages by the use of one or more code words. This effects a great saving of expense, inasmuch as the cheapest rate for a foreign message is 25 cents a word from New York to London or Paris. The cable addresses of the issuing bank and of its principal correspondents, in whose care messages may be sent, are given in this book, as Credionais, Paris (for the Crédit Lyonnais, Paris), or Dresdbank, Berlin (for the Dresdner Bank, Berlin).

Travelers, carrying letters of credit, sometimes register special cable addresses for themselves with one or more banks. For example, a traveler named Frank Henry Smith might register as Fransmith with the Crédit Lyonnais in Paris. A message addressed Fransmith, care Credionais, Paris, would then be forwarded by the Crédit Lyonnais to Frank Henry Smith. When this is not done, it is necessary to use the entire name, and such a message would then be addressed Frank Henry Smith, care Credionais, Paris.

23. Lost or Stolen Credits.—Letters of credit are rarely lost or stolen, and when lost they rarely fall into the hands of those who will attempt to draw money against them wrongfully. Nevertheless, bankers should always watch a person signing a draft. Bankers accustomed to paying drafts against letters of credit are generally quick to detect anything suspicious in the acts or demeanor of th

person signing a draft or receipt, so that counterfeiting a signature under the eye of a watchful banker is not an easy matter. The danger of their misuse by the finder is further minimized where the signature of the accredited party is made on a signature card in a separate book, carried apart from the letter itself, because neither letter nor book is of any use without the other. In case of loss, the printed instructions inform the traveler to whom and how he must report the fact. On receipt of the information, a circular canceling the letters is immediately sent out by the bank to all correspondents. The cost of printing and mailing this circular, and also any loss resulting from the misuse of the lost letter before receipt of circular, is collected from the accredited party.

24. **Extending the Term of a Credit.**—The duration or term of a letter of credit is given on its face. If a traveler wishes to have the term of his letter extended, he can generally arrange to have it done by applying to the issuing bank or to the correspondent on whom the letter is issued. The extension, if granted, must either be written on the face of the letter of credit or be in the form of a letter to be attached to it.

25. **Additional Funds and Supplementary Letters of Credit.**—Sometimes, the amount of a letter is insufficient for the needs of the traveler. In such a case, he may arrange to have additional funds cabled to him by the bank through one of its correspondents, or he may arrange to have a supplementary credit issued. This supplementary credit is not mailed to the accredited party direct, but to one of the bank's correspondents, for delivery to him on identification. The traveler is recommended to retain the old letter of credit with a small balance unused for his identification.

26. **Storage and Forwarding.**—In order that travelers may know of reliable firms that will attend to the storage and forwarding of baggage, etc., the issuing bank, in its book of instructions, generally gives the names and addresses of such as it is able to recommend.

Tourists' Floater

FOREIGN

No.

FEDERAL INSURANCE COMPANY

CHUBB & SON, Managers

5 & 7 SOUTH WILLIAM STREET, NEW YORK

By this Policy of Insurance,

SUM INSURED,

$______

RATE,

______%

PREMIUM

$______

Do Insure ____________________

In case of loss to be paid to ____________________

From __________ *190*__, *at noon, until* __________ *190*__, *at noon,*

the sum of ____________________ *Dollars,*

On Personal Effects as follows:

Wearing Apparel, Linen, Printed Books, Music, Watches, Diamonds, and other jewelry in use, Photographic Apparatus and materials, Baggage, Trunks, Satchels, Umbrellas, Parasols, Walking Sticks, Fishing Rods and Tackle, Guns, Bicycles and Games, being the property of the Assured or any member of his family, or servant accompanying the Assured or his family.

This insurance attaches from the time the property insured is taken from the residence of the Assured, and continues wherever said property may accompany the Assured or his family during the term of the policy; Covering all risks of fire, transportation and navigation, excepting loss of jewelry or valuables by theft, while in the custody of any Railroad, Express, Transfer and/or Transportation Company and/or of any Steamship or Steamboat, and against fire only while in Dwelling, Boarding House, Hotel, Laundry, Railway Station, Freight House, Storehouse or other repository (excepting Theaters and other places of public amusement).

This policy also covers for not exceeding 10 per cent. of the sum insured against loss by theft of entire Trunks, Satchels or other receptacles while contained in the apartments occupied by the Assured in any Hotel or Boarding House, also when checked or delivered against receipt at any Hotel or Boarding House.

It is agreed that this policy does not cover loss from breakage, unless caused by fire, collision or derailment.

All adjusted claims shall be due and payable thirty days after the presentation and acceptance of proofs of interest and loss at the office of this Company.

It is understood and agreed that this Policy does not cover in any place where the Assured has specific insurance on above described property.

It is understood and agreed that in case the property above described is in different places, this Policy covers in each place that proportion of the whole amount of the Policy, that the value of the property in each place bears to the value in all; and that in the event of loss, this Policy shall pay such portion of same, as the sum hereby insured bears to the aggregate cash value of all the property covered hereunder.

It is understood and agreed that in case of loss and by reason of such loss if the Assured acquires the right of action against any individual or corporation for damage to above described property he shall assign or transfer such claims to said Company upon receiving payment for said loss, and permit suit to be brought in his name, but at the Insurers' risk and expense.

This Policy may be cancelled by either party giving five days' notice in writing. Pro rata return premium if cancelled by assurer. Short rates to be charged for time used if cancelled by assured.

To pay loss without regard to particular average.

Warranted that in the event of loss immediate notice shall be given by the Assured to CHUBB & SON, New York, or to the Sea Insurance Company, Ltd., Exchange Buildings, Liverpool.

In Witness Whereof, the Federal Insurance Company has caused this Policy to be signed by its President, at Jersey City, N. J., but it shall not be valid unless countersigned by ____________________

Countersigned this ____ *day of* ________ *190*__

____________________ *President*

FIG. 14

27. Insurance.—In order that travelers may insure their personal effects when absent from home, a form of policy known as the *Tourists' floater* is now issued. Fig. 14 shows a form in which the traveler is insured without limit as to territory. The cost per $1,000 of such insurance is as follows: 2 months, $7.50; 3 months, $10; 4 months, $12.50; 5 months, $15; 6 months, $17.50; 1 year, $20. Another form is limited to use in the United States and Canada; in it the theft clause is omitted, and the rates are 20 per cent. lower than the former.

COST OF TRAVELERS' LETTERS OF CREDIT

28. Cost to the Traveler.—The usual commission charged the traveler for a letter of credit issued in dollars is from ½ to 1 per cent., according to the amount of the letter and the custom of the place of issue, the minimum commission being $2.50 to $5.

The usual commission charged the traveler for a letter of credit issued in a foreign currency is 1 per cent. The dollar value is generally figured at the posted rate for demand bills for that particular currency, the minimum commission being $5.

When cash is not paid in advance for a letter, the issuing bank generally charges the traveler interest on each draft from the time of its payment abroad until the banker's reimbursement at home, not less than 10 days.

For cashing drafts drawn by travelers against letters of credit there is no fixed tariff of charges. Banks may charge a small commission, or they may make their commission in the rate of exchange. For example, a person traveling in Switzerland presents a letter drawn in pounds sterling. If he asks that English gold be paid him, the banker will charge him a commission to cover the cost of getting the gold and collecting his draft. If the traveler asks for francs, the banker will figure the francs at such a rate of exchange as will give him a commission over the cost of collecting the draft.

Travelers sometimes return letters of credit without having used them. It is customary to make such persons pay the

minimum commission to cover the trouble and expense of issuing the letters.

29. Cost to the Issuing Bank.—Travelers' letters of credit are valuable in proportion to the extent to which they are recognized throughout the world. The banker, therefore, must make arrangements with from 1,000 to 2,000 banks to cash his letters of credit. This involves a heavy expense in the supplying to each correspondent of a specimen letter and official signatures. The actual cost of the engraved letter, the printed list of correspondents, the book of instructions to travelers, the cipher code, and the pocketbooks in which they are carried is also considerable, each letter costing a bank from 50 cents to $1.

The charges made by the foreign correspondents, on whom the accredited party is authorized to value (draw), vary. They do not usually exceed a commission of $\frac{1}{8}$ per cent.

CONDITIONS AND TERMS OF ISSUE

30. To Whom Letters Are Issued.—Since a bank's letter of credit is its introduction of the person named in it, to that bank's foreign correspondent, it is assumed by the latter that the issuing bank, in granting the letter of credit, has satisfied itself that the accredited party is a proper person to introduce to them. Therefore, as a condition of issue, it is most essential that the applicant for a letter of credit be personally known to the bank, or that he furnish a satisfactory introduction.

31. Terms on Which Letters Are Issued.—The usual terms on which letters are issued are as follows:

1. A cash payment for the full amount, plus commission. On cash letters for large amounts, say $5,000 or its equivalent, the commission is, in exceptional cases, reduced or altogether waived, the bank making its profit from the use of the money. This practice, however, is not to be recommended.

2. A satisfactory guaranty of repayment of the amount used, with commission and (generally) interest. Fig. 15

GUARANTY

FOR

Letter of Credit, No.______ Expiring________

____________________190__

Whereas, the Foreign Exchange Bank of New York has issued a Circular Letter of Credit, No.______, dated__________________ expiring________________, for the sum of______________________

____

in favor of____

$\frac{\text{I}}{\text{We jointly and severally}}$ do hereby guaranty and agree to pay to the said Foreign Exchange Bank, on demand, each and every amount drawn against the said Letter of Credit, together with the usual charges.

In case the said Letter of Credit is lost or stolen, the said Foreign Exchange Bank is hereby authorized, on receipt of notice of such loss, to notify its correspondents of the same and to take such precautions as the said bank may deem advisable for the prevention of fraud, and $\frac{\text{I}}{\text{we jointly and severally}}$ agree to pay any expenses occasioned thereby.

In case drafts drawn against this said Letter of Credit shall be cashed by any banker, under the usual precautions, before the receipt by him of notice of said loss, $\frac{\text{I}}{\text{we jointly and severally}}$ agree to indemnify the said Foreign Exchange Bank against any loss therefrom.

In case of an extension or renewal of this said Letter of Credit, this guaranty and agreement shall continue to be binding on $\genfrac{}{}{0pt}{}{\text{me}}{\text{us}}$ for the full term of such extension or renewal.

____

____

FIG. 15

GUARANTY

FOR

Letter of Credit, No.________ Expiring____________

______________________190__

Whereas, the Foreign Exchange Bank of New York has issued a Circular Letter of Credit, No.________, dated____________________,
expiring____________________, for the sum of____________________
in favor of____
for and in consideration of which $\frac{\text{I}}{\text{we}}$ have____________________ ("paid to" or "deposited with")
the said Foreign Exchange Bank________________________________

____

Therefore, the said Foreign Exchange Bank is hereby authorized [illegible] to charge against the said $\frac{\text{sum}}{\text{collateral}}$ each and every amount drawn [illegible] against the said Letter of Credit, together with the usual charges.

In case the said Letter of Credit is lost or stolen, the said Foreign [illegible] Exchange Bank is hereby authorized on receipt of notice of such loss, [illegible] to notify its correspondents of the same, and to take such precautions [illegible] as the said bank may deem advisable for the prevention of fraud, and [illegible] __________ (we jointly and severally) agree to pay any expenses occasioned thereby. [illegible]

In case drafts drawn against this said Letter of Credit shall be [illegible] cashed by any banker under the usual precautions, before the receipt [illegible] by him of notice of said loss, __________ (we jointly and severally) agree to indemnify [illegible] the said Foreign Exchange Bank against any loss therefrom.

In case of an extension or renewal of this said Letter of Credit [illegible], this guaranty and agreement shall continue to be binding on $\frac{\text{me}}{\text{us}}$ for [illegible] for the full term of such extension or renewal.

____

____

FIG. 18

shows a form of guaranty. The guarantor promises to pay all drafts drawn against the letter, together with the usual charges. In case of its loss, he authorizes the bank to notify its correspondents by circular of the loss and cancelation of the letter, and agrees to pay all expenses and loss incurred through misuse. The guaranty is generally regarded as satisfactory when given by the accredited party himself, if he maintains a good deposit account with the issuing bank, and authorizes the charge against his account of all drafts drawn under the letter; or when given by another bank, or by a person or a business house in good standing.

3. A deposit of approved collateral as security for the repayment of the amount used, together with commission and interest. When approved collateral is deposited, the interest and dividends, if collected by the bank, are credited to the account of the drafts drawn against the letter. Some banks charge a commission for such collection.

4. A deposit of cash, against which the amount used, plus commission, is charged. On the daily balances, interest is generally allowed at an agreed rate.

When letters of credit are issued against a payment of cash or a deposit of collateral or cash, as shown in paragraphs 1, 3, and 4, a different guaranty should be used, as shown in Fig. 16.

32. Unused Balances.—On the return home of the accredited party, a letter of credit on which there is an unused balance should be returned for cancelation to the issuing bank. In the case of a cash letter, the unused balance is refunded to the accredited party. If in a foreign currency, it is generally figured at the rate of exchange for the day for demand bills.

THE WORKING OF A TRAVELER'S LETTER OF CREDIT

33. Obtaining the Letter.—Having met all requirements as to fitness to carry the bank's introduction, the applicant fills out an application blank, in which he states

the form of credit he wishes, its amount, the duration, and the terms, giving the required number of specimen signatures. The letter is then drawn and signed by an authorized official of the bank and the applicant affixes his signature, either to the letter itself or to the signature or identification card, according to the form of letter issued. The letter is then folded and placed in a neat case. The list of correspondents (separately printed), with the signature card (if any), is placed in another neat case to be kept apart from the letter of credit itself as a precaution against loss and forgery. These, with the instructions and cipher codes, are then given to the applicant on payment of the cash value or on delivery of guaranty or cash deposit or collateral.

34. Using the Letter.—The accredited party, in order to obtain funds in any city, calls on the correspondent named in the list, presents the letter, and asks for the amount he wishes. The banker examines the letter, and if it is one that is seldom handled by him, he will take time to compare the letter and its official signature with his specimen copy. He then notes the date of expiration and the amount previously drawn, if any. If there is a sufficient balance still unused, he makes out a draft or a receipt for the desired sum and presents it to the traveler for his signature. He watches the traveler while signing, and then compares his signature with that on the letter of credit or on the identification card. If they correspond, he enters the amount on the back of the letter and pays out the money, and returns the letter, if it is not exhausted, to the accredited party.

INTERNATIONAL CHECKS AND CIRCULAR NOTES

35. An **international**, or **traveler's, check** is the check of a bank for the special use and convenience of travelers. Like a bank note, it is generally printed from an engraved plate. Each check is issued for a specified amount, which is printed on its face, together with the equivalents of that amount in the currencies of several countries, the names


BROWN BROTHERS & CO.
SPECIMEN SIGNATURE OF PAYEE
New York
MESSRS. BROWN SHIPLEY & CO., LONDON.
SPECIMEN
IN GOLD OR ITS EQUIVALENT
IN GERMANY 101.05 R.M.
FRANCE BELGIUM SWITZERLAND 125.55 FRANCS
IN HOLLAND 60.05 FL.
DENMARK NORWAY SWEDEN 89.90 KR.
U.S. AMERICA $24.50
RUSSIA 47.10 ROUBLES
IN AUSTRIA 120.10 K.
ITALY 125.55 LIRE
IN ENGLAND £5 STG. SCOTLAND & IRELAND
V 000000 00

Fig. 17

of the countries being also printed on its face. The equivalents are figured at a fixed rate of exchange. It is payable in any one of the countries named, in the currency of that country. In any other country, it is payable at the current rate of exchange on any one of the countries named on it.

These checks are issued by a few banks, bankers, and express companies. In America, they are issued by some houses in dollars and equivalents, and by others in pounds sterling and equivalents. They are of different denominations, the highest being $100, or £20, and the lowest $5, or £1. Some banks issue nothing under $25, or £5.

Each bank has its own particular form of check, and adopts one of the two methods used in letters of credit for the identification of the payee. Fig. 17 shows one form used. On this, the payee is required to write or sign his own name at the time of purchasing the check; this is to serve as his identification when he wishes to negotiate the check. In Fig. 18 is shown a form of circular note. On this, the bank writes the name of the payee, as on an ordinary check, the payee being required to sign a special identification card that he must carry with him. It will be noticed that the payer is requested to ask for this card before cashing the check. The negotiation of both forms requires the indorsement of the payee. The identification of the payee is made by a comparison of his indorsement of the check with his signature on its face or on the identification card.

International checks are generally made redeemable at certain banks or offices, the names and addresses of which are printed on the checks. This fact facilitates their negotiation and therefore increases their usefulness. They are safer than bank notes, because the payee is identified by his signature.

International checks are sold, for cash only, to any purchasers that comply with the requirements of the bank as to identity and responsibility. The price charged is their face value plus a commission of ½ per cent., the minimum commission charged being 50 cents. Foreign bankers cashing


THOMAS COOK & SON.
Nº 574160
CIRCULAR NOTE FOR FIVE POUNDS
£5
FIVE
FIVE POUNDS
SPECIMEN
THOMAS COOK & SON
5

Fig. 18

these checks are generally allowed a commission of $\frac{1}{8}$ per cent. by the banks redeeming them.

36. The advantages of letters of credit and travelers' checks are as follows: A traveler wishes to provide himself with, say, $5,000 for expenses while traveling. He may do so in any one or more of the following ways: (1) He may carry the entire amount with him in cash, in one form or another. (2) He may arrange to have bills of exchange sent to him from time to time by his office or bank or family. (3) He may buy bills of exchange drawn on the different cities that he plans to visit and carry these bills with him. (4) He may obtain a traveler's letter of credit. (5) He may buy travelers' checks. The first will be attended with considerable risk and inconvenience. The second will result in considerable annoyance in cases of delay in making remittance or through miscarriage in the mails. The third requires that he decide on a definite route in advance, allowing for no change of plans and compelling him to decide what amount of money he will need in each place. The fourth, the safest way, enables him to alter his route as he wishes and to draw money in any amount as he needs it, subject to the conditions and up to the amount for which it is issued. The fifth is very convenient, travelers' checks being readily accepted by hotels, railroads, steamship companies, and generally by merchants. The traveler, therefore, usually chooses the fourth or the fifth way, or both of them, taking a small amount of ready money with him. Because of their convenience, international checks are often used in place of letters of credit, when the amount required is small. When the amount required is large they are sometimes used to supplement the letters of credit.

FOREIGN MONEY

37. Bankers issuing letters of credit and travelers' checks are frequently requested to provide sufficient foreign money for the immediate needs of their clients on arrival abroad.

Foreigners—and, on their return, these same clients—wish to convert foreign money into dollars, and bring it to the banker for that purpose. Many persons expect to obtain the same rate for their money on return that they paid for it, and do not realize (1) that all capital tied up in foreign money is unproductive except as the banker charges a commission for it; (2) that it is proper that the banker should be compensated for his trouble in procuring and disposing of foreign money; (3) that the rates for money are subject to fluctuations as are bills of exchange.

Table I will give an idea of the differences between the buying and selling rates for foreign money.

TABLE I

BUYING AND SELLING RATES FOR MONEY

Kind of Currency	Buying Rate Subject to Fluctuation	Selling Rate Subject to Fluctuation
Sovereigns	$4.84	$4.88
Bank of England notes	4.83	4.87
English silver	4.80	4.85
French gold	.1925	.1945
French paper	.1920	.1940
Marks, gold	.2360	.2385
Marks, paper	.2355	.2380
Kronen, paper	.2640	.2675
Roubles, gold	.2550	.2570
Roubles, paper	.2540	.2560
Holland guilder	.3955	.4050
Austrian kronen	.2020	.2035
Mexican dollar	.48	.53
Canadian silver	.98	
Canadian paper	.99¾	

FOREIGN EXCHANGE

(PART 5)

ANCE BILLS, FUTURES, ARBITRAGE, AND GOLD MOVEMENTS

FINANCE BILLS

Object and Conditions of Issue.—A finance bill long bill drawn by a bank on one of its foreign corredents for the purpose of obtaining a loan from that corredent. Finance bills are usually drawn at 60 or 90 days' for amounts of £1,000 to £5,000, or of 25,000 to 100,000 s, etc., and are issued under an agreement between the er and the acceptor. The usual terms of the agreement s follows:

The deposit of approved collateral as security for the yment of the bills at maturity. This collateral is sited by the drawer with either the acceptor or some estic bank designated by the acceptor to receive it. latter is the customary plan, since it admits of the ready titution of collateral by the drawer from time to time.

The charge by the acceptor of a commission for the ptance of the bills. This commission rarely exceeds r cent.

The agreement by the drawer to take up the bills at maturity.

nance bills are also frequently issued on *joint account;* is, on agreement between the drawer and the acceptor ivide the profits or losses.

2. Working of a Finance Bill.—The following explains the use of finance bills in obtaining loans: A New York banker wishing to borrow £50,000 in London on 60 days' sight bills, issues that amount on the London bank, dividing it into perhaps ten bills of £5,000 each, which he may dispose of by either of the following methods:

1. He may negotiate them to some other New York bank or banks, exactly as he would any other bills of exchange. These banks will send the bills to correspondents in London, who will obtain their acceptance by the drawees. In this case, the banker receives the proceeds of the loan at once, and may use it in any way he sees fit; he may reloan it at home, or he may buy bills or cables for the purpose of increasing his credit with other banks abroad.

2. He may negotiate the bills to another London bank or to some other foreign bank with which he corresponds for credit to his account. The bank to which he sells them will then obtain their acceptance. In this case, the loan is in the form of increased credit abroad, which he may use to meet other maturing obligations; or, he may sell his checks, cable transfers against this credit, and thus make the loan available at home for reloaning. If he wishes to adopt this method, he will cable one or more foreign bankers for the rates at which they will discount his bills, and accept, by cable, the most satisfactory rates. At their maturity, the issuing bank must either remit to the acceptors to cover these bills or arrange with them to renew the loan by the issue of new bills.

3. Reasons for Issuing Finance Bills.—Three reasons that, either independently or in combination, may cause international bankers to borrow funds abroad by issuing these bills are as follows:

1. *The profit to be derived from simultaneous differences in the money rates in different countries.* In every country there are times when there is great activity in all lines of business, times when there is great activity in certain lines of business, and moderate activity in others, and times of general depression. These, as well as any unusual conditions—such as may

be caused by elections, or by strikes, wars, or other disturbances—influence the money rates of a country; that is, the rates of interest charged by banks for the use of money. Any conditions that cause a great demand for money tend to make money rates high, and any that cause a light demand for money tend to make money rates low. As the same conditions do not prevail in all countries at the same time, there is frequently quite a difference between the rates quoted in one country and those quoted in another. Consequently, for example, if money is quoted at 6 per cent. in New York and the discount rate in London is 3 per cent., the New York bank by issuing finance bills on London and loaning the proceeds in New York will make a profit of the difference (3 per cent.) less the usual charges, provided the bank can cover at maturity without loss in exchange. If there is a loss in exchange and commissions amounting to 2 per cent., there will still be a profit of 1 per cent.

2. *The profit to be derived from a decline in exchange rates.* Among international bankers there are those who, by long experience, and a kind of intuition, are able to forecast with considerable accuracy the position and probable rates of exchange several weeks or months in advance. Such bankers, depending on the probable accuracy of their judgment, will issue finance bills in the expectation of a decline in the rate at or before maturity. If this decline takes place, they will be able to cover the bills at a lower rate of exchange than that at which they issued them, and thus make a profit in the exchange rate as well as in the money rate. For example, if 60 days' sight bills on London are issued in New York at a time when the check-rate is $4.87\frac{1}{4}$, the London discount rate 3 per cent., and the 60-day rate $4.84\frac{1}{2}$, and if the rates decline so that, when the bills mature, checks on London can be bought at 4.85, the bankers by buying exchange at 4.85 and remitting it in settlement of the loans will make a profit of $4.87\frac{1}{4} - 4.85 = 2\frac{1}{4}$ cents per pound in the rate. This is approximately equivalent to interest at 3 per cent. per annum. If, contrary to expectation, there is no decline at maturity, the bankers may arrange to renew their loans and, by issuing

new bills to take the place of those that have matured, defer settlement in the hope or expectation of a subsequent decline. This may always be done without danger of loss in exchange if the bills have been issued so that the rate at which the banker can afford to cover them is the gold point. Otherwise, it becomes a form of speculation in which private banks engage more extensively than public banks.

3. *The prevention of gold exports.* There are times when the supply of documentary and all other bills presented to the banks for sale and for collection is not sufficient to produce a credit balance abroad that will meet the domestic demand for remittance bills; then the gold-export point of exchange is reached. It is, however, the invariable policy of each country to protect its gold reserve as far as possible, so that, to prevent the export of gold at such times, it becomes necessary to create credit abroad. One of the methods by which this is done is to issue finance bills in large quantities. The immediate effect of doing this is a depression of the rates of exchange below the gold-export point. Under these conditions, the inducement to the banker to put out finance bills is very great if the discount rates abroad are not abnormally high.

4. **Investments.**—Finance bills and prime commercial long bills are sometimes held as investments by the purchasing banker. The usual procedure in such cases is for the purchaser to send the unindorsed firsts abroad for the acceptance of the drawee, these firsts being held without discount by his correspondent for the arrival of the indorsed seconds. The unindorsed seconds are then held by the purchasing banker as an investment in the expectation of a favorable change in the rates of exchange and discount at or before maturity. When the proper time arrives, the seconds are indorsed and sent forward to be attached to the accepted firsts, and the two together are negotiable.

CONTRACTS FOR EXCHANGE, OR FUTURES

USE OF FUTURES

5. Commercial Contracts.—There are certain lines of foreign trade in which merchants make contracts, one or two or more months in advance, for the sale or purchase of merchandise. In some lines, the margin of profit is so small that merchants do not care to speculate on the rates, and they are, therefore, compelled to guard against the possibility of any unfavorable fluctuations in the rates of exchange that may reduce their profits. This is done by making contracts with bankers for the future delivery (sale) or purchase of exchange, as the case may be, at fixed rates.

6. Bankers' Contracts.—Some bankers, when issuing finance bills wish to avoid the possibility of any losses that may result from an unfavorable position in the rates of exchange at their maturities. They therefore make **commercial contracts,** or **contracts with other bankers,** that will provide them with bills at favorable rates at the proper times. In addition to this, in a city like New York, where a large part of the business is handled by brokers, many purchases and sales are made by contract one or more days in advance of the delivery of the bills.

Records of the maturities of finance bills and of contracts for future purchases and sales of exchange are kept by halves or quarters of a month except when the transactions are for specific dates. If these records are properly kept, they will show the banker his exact position for any given future period. If his purchases of futures do not offset his sales and maturities at any period, he must either assume the risk of loss when that period arrives or make further contracts for purchase or sale, as circumstances require, to cover the difference.

7. Rates.—The necessity for making contracts for futures has led to the custom of establishing **rates for futures.** These rates are quoted exactly as all others and are similarly

subject to fluctuations; they are based on the concurrent estimate or forecast of bankers. For example, in May, the rate for 60 days' sight grain bills on the United Kingdom, for the latter half of July, may be placed at 4.83. In the month of June, the quotations for the same bills may drop or advance, according to changes in the forecast for the latter half of July. Thus, a merchant selling grain in May and also in June for shipment the latter half of July may get a different rate of exchange for each contract.

The value to the merchant and banker of such contracts may be made clearer by an illustration. In the month of May, a merchant in Glasgow, Scotland, contracts with a New York exporter for a shipment of wheat, to be made during the latter half of July. In quoting a price to the Glasgow merchant, the exporter takes into consideration the then (May) quoted rates for grain bills for the latter half of July. If, however, the exporter fails to contract with a banker to sell him his bills at the May quotations, he will be obliged to sell them at the actual rate for such bills on the day of delivery in July. If the rate in July is lower than the rate at which the exporter could have contracted to deliver them in May or at any subsequent date, he will lose money by the transactions; if it is higher, he will gain. Merchants generally do not take such risks, but contract for the sale of their export bills when they sell their merchandise. In the same way, importers, by contracting to purchase exchange in advance, may protect themselves against any possible advances in the rates of exchange on the due dates of their foreign bills payable.

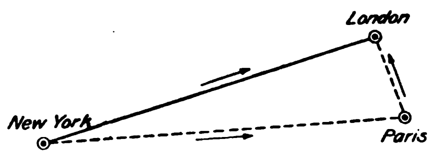
ARBITRAGE

DEFINITIONS AND TERMS

8. **Arbitrage** is the name given to those operations by which advantage is taken of simultaneous differences in the rates and prices in different cities and countries for the most economical transfer of money or credit and securities from one to another. In other words, in the case of credits it consists in making an indirect instead of a direct transfer from

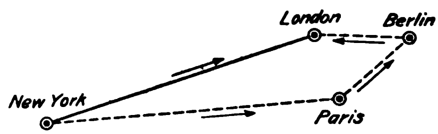
one city to another when an indirect rate is better than the direct rate; and in the case of securities, it consists in buying and selling securities in two markets when differences in prices, rates of exchange, time, and the rules of different stock exchanges show a profit.

9. Arbitrage of Credit, or Bills of Exchange.—Figs. 1, 2, and 3 illustrate three methods of making an indirect transfer of credit from New York to London. There are many other possible combinations, but the methods shown are sufficient to explain the general character and purpose of all.



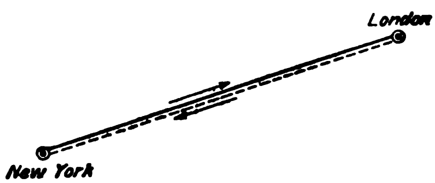
New York remits to Paris and Paris to London

FIG. 1



New York remits to Paris, Paris to Berlin, and Berlin to London

FIG. 2



London draws a bill (called return bill) on New York and negotiates it in London for the credit of New York

FIG. 3

10. A **direct rate** is the rate between two points, such as the rate between New York and London, or between Paris and London. A **cross-rate** is the direct rate between two foreign points, regarded from a third point, such as the rate between London and Paris, regarded from New York or from Berlin. An **arbitrated rate**, or parity, is the rate obtained by reducing one or more intermediate rates (one direct rate and one or more cross-rates) to the same terms, or basis, as the principal direct rate. In the foregoing illustrations, the principal direct rate is that from New York to London; the arbitrated rates are those obtained by reducing to the same terms as the principal direct rate; in Fig. 1, the

rates from New York to Paris and Paris to London; in Fig. 2, the rates from New York to Paris, Paris to Berlin, and Berlin to London; in Fig. 3, the rate from London to New York, when it is quoted in pence (in this case, if the rates are quoted in the same terms, no reductions are made).

11. Arbitrations of exchange cover the calculations by which arbitrated rates, or parities, are obtained and also the comparison of those rates with the principal direct rates. Arbitrations are either *simple* or *compound*. **A simple arbitration** is one in which there is only one calculation, there being either one intervening point (as in Fig. 1, in which Paris is the intervening point), or no intervening point (as in Fig. 3, in which drawing by London is substituted for remitting by New York). A **compound arbitration** is one in which the calculation covers two or more intervening points (as in Fig. 2, in which Paris and Berlin are the intervening points). In a simple arbitration (as in Fig. 1), there is one direct rate and one cross-rate connecting with it. In a compound arbitration (as in Fig. 2), there is one direct rate and two or more connected cross-rates, one of which connects with one point of the direct rate and another with the other point.

12. The differences in the rates that make arbitrage through one or more intermediate points possible, and frequently profitable, are due to three facts: (1) The relations of countries to one another, as debtor or creditor, are constantly undergoing changes, which are reflected in the rates; (2) it seldom happens that two or more countries simultaneously bear exactly the same relation to another country as its debtors or creditors; (3) although in every country the rates are sensitive to influences that disturb the rates in other countries, they are not controlled by these influences.

The differences in the direct rate between two countries that make arbitrage possible, and frequently profitable, by a return operation (see Fig. 3) are due to two facts: (1) When the rates are quoted in different terms in each country, it is

seldom possible to state the exact equivalent of one in quotable terms of the other; for example, a rate of $.94⅞ in New York is equivalent to mk.4.2160738 in Berlin, which is an unquotable rate, while a rate of mk.4.21 in Berlin is equivalent to $.9501188 in New York, which also is an unquotable rate. (2) When the rates are quoted in the same terms in both countries, local conditions may be so reflected as to cause slight differences between the quotations (for checks and cables) in the one and in the other.

In this connection it should be noted that in any two countries the rates of exchange for checks and cable transfers between those countries are quoted conversely one to the other. For example, supposing that the quotations in New York on London are checks 4.86 and cables 4.86½, those in London on New York will be, approximately, checks 4.86½ and cables 4.86. The reason for this is shown in the following illustration in which the quotations are exactly reversed, making the difference in cost between check and cable identical in each case:

A check for £1,000 on London, selling in New York at 4.86, would cost $4,860

A cable for £1,000 on London, selling in New York at 4.86½, would cost $4,865

A check for $4,865 on New York, selling in London at 4.86½, would cost £1,000

A cable for $4,865 on New York, selling in London at 4.86, would cost £1,001

The check in each case will be paid in from 7 to 10 days after it is drawn, while the cable will be paid at once or as nearly so as possible. Therefore, the difference between the check and cable rates represents, approximately, the interest for the difference in the time when the drawee or paying banker will make the respective payments. In the illustration, it is assumed that the money rates and other conditions are alike in New York and London, so that the rates are exactly reversed. However, should there be differences in those rates and in other conditions, it is easy to see how a remittance by a return bill might prove profitable either in New York or in London, according to the conditions.

When money rates are higher in the country from which a remittance is to be made than in the country to which it is to be sent, and the remitting banker can obtain the necessary credit abroad by means of a return bill drawn on him by this foreign correspondent, he can use his funds at the higher local rate by loaning the same on call for the 6 to 10 days that will elapse before the foreign bill will be presented to him for payment.

13. Readjustment of Foreign Balances.—In Figs. 1 and 2, it is supposed that a remittance from New York to Paris is necessary to the arbitrage operation indicated. If, however, New York finds its balance in Paris larger than is required, instead of increasing its aggregate foreign balance by remitting to Paris, it may instruct Paris to remit to London, as in Fig. 1, or to Berlin, as in Fig. 2, or it may accomplish the same result by means of a return bill. By this method, New York reduces its balance in Paris and increases it in London without increasing its aggregate foreign balance; this operation is called the **readjustment of foreign balances.** It may be used in connection with all accounts, so that its place in arbitrage transactions is very important.

14. Arbitrager.—A person that conducts operations in arbitrage is called an **arbitrager,** or **arbitrageur.** All his operations are carried on by cable, with the use of cable codes, and he is in constant cable communication with the arbitragers of foreign corresponding banks. He receives from them the quotations of their discount rates, and of their exchange rates for cable transfers, checks, and long bills on different points, giving his own in return. He uses these quotations for two purposes: (1) to determine the rates that he will bid and ask for exchange, and (2) to determine the cheapest method of remitting or transferring credit, whether by direct or indirect remittances or by readjustment of balances, and the best means by which to make such transfers, whether cables, checks, or long or short bills. Both purposes are accomplished by calculating the arbitrated rates, or parities.

ARBITRAGE CALCULATIONS

15. The method of reduction used in arbitrage calculations to find an arbitrated rate, or parity, is known as the **chain rule**, or the **conjoined rule**, and may be explained as follows:

1. *Statement:* All rates that enter into the calculations are stated, with their equivalents, in the form of what are known as *equations*, as \$1.00 = fr.5.19$\frac{3}{8}$; or £1 = fr.25.20$\frac{3}{4}$. The question for solution is also stated in the same way.

TABLE I

QUOTATIONS

City	Sterling Bid	Sterling Asked	Francs Bid	Francs Asked	Marks Bid	Marks Asked	Guilders Bid	Guilders Asked
New York.	4.8515	4.85$\frac{1}{4}$	5.19$\frac{3}{8}-\frac{1}{32}$	5.19$\frac{3}{8}$	.94$\frac{7}{8}-\frac{1}{32}$	.94$\frac{7}{8}$	.40$\frac{1}{8}-\frac{1}{16}$	.40$\frac{1}{8}$
	\$ per £		fr. per \$		\$ per 4 mk.		\$ per fl.	
Paris . . .	25.19$\frac{3}{4}$	25.20$\frac{3}{4}$			123.10	123.16$\frac{1}{2}$	208$\frac{3}{16}$	208$\frac{5}{16}$
	fr. per £				fr. per 100 mk.		fr. per 100 fl.	
Berlin . .	20.45	20.47	81.18	81.24			169.10	169.20
	mk. per £		mk. per 100 fr.				mk. per 100 fl.	
Amsterdam	12.09	12.10	47.99	48.02	59.10	59.14		
	fl. per £		fl. per 100 fr.		fl. per 100 mk.			
London. .			25.20$\frac{3}{4}$	25.19$\frac{3}{4}$	20.47	20.45	12.10	12.09
			fr. per £		mk. per £		fl. per £	

The unknown quantity is the first term and is represented by x or ?, which is followed by the sign or abbreviation of the denomination required, as ? fr. = \$1.00, or x \$ = mk.4.

2. *Arrangement:* The equations are placed one beneath the other, the question for solution being the first and the other equations following in such sequence that the first term of each will be of the same denomination as the last term of the preceding equation. As a result of this arrangement, the last term of the last equation will be of the same denomination as the first term of the question for solution, thus completing the sequence.

3. *Operation: Divide the product of the figures in the right column by the product of those in the left column, and the quotient will be the arbitrated rate, or parity.*

Table I contains rates that were actually quoted in the cities named on a given date, and is made the basis of the calculations that follow, illustrating the use of the chain, or conjoined, rule in obtaining arbitrated rates, or parities.

16. The following arbitrage calculations illustrate the method by which the arbitrager determines the rates that he will bid to obtain a given indirect or arbitrated rate.

EXAMPLE.—To obtain in New York an indirect rate of 4.8520 on London: A New York banker finds that he cannot buy exchange on London at less than $4.85\frac{1}{4}$ and therefore, to obtain a rate of 4.8520, he bids for exchange through Paris, Berlin, and Amsterdam. In each case two calculations are given, one of which shows the rate to be bid in New York if he is obliged to pay the asked rate on London in the foreign city, while the other shows the rate to be bid on London abroad if he is obliged to pay the asked rate on the foreign city in New York.

SOLUTION.—(*a*) Through Paris: the asked rate on London in Paris being $25.20\frac{3}{4}$, and the asked rate in New York on Paris being $5.19\frac{3}{8}$.

$$
\begin{array}{lrcl}
(1) & ?\ \text{fr.} & = & \$1 \\
 & \$4.8520 & = & £1 \\
 & £1 & = & \text{fr.}25.20\frac{3}{4} \\
\hline
 & 4.8520 & & 25.20\frac{3}{4}
\end{array}
$$

$25.20\frac{3}{4} \div 4.8520 = \text{fr.}5.19528 = 5.19\frac{3}{8} - \frac{1}{32}$, the rate he may bid in New York for francs.

$$
\begin{array}{lrcl}
(2) & ?\ \text{fr.} & = & £1 \\
 & £1 & = & 4.8520 \\
 & \$1 & = & \text{fr.}5.19\frac{3}{8} \\
\hline
 & 1 & & 25.20 +
\end{array}
$$

$£1 = \text{fr.}25.20$, the rate he may bid in Paris for sterling.

(*b*) Through Berlin: the rate on London in Berlin being 20.47, and the rate on Berlin in New York $.94\frac{7}{8}$.

$$
\begin{array}{lrcl}
(1) & ?\ \$ & = & \text{mk.}4 \\
 & \text{mk.}20.47 & = & £1 \\
 & £1 & = & \$4.8520 \\
\hline
 & 20.47 & & 19.4080
\end{array}
$$

$19.408 \div 20.47 = .9481192 = .94\frac{13}{16}$, the rate he may bid in New York for marks.

(2) ? mk. = £1
£1 = 4.8520
$.94⅞ = mk.4

.94⅞ 19.408

19.408 ÷ .94⅞ = mk.20.45⅝, the rate he may bid in Berlin for sterling.

(*c*) Through Amsterdam: the rate on London in Amsterdam being 12.10, and the rate on Amsterdam in New York being .40⅛.

(1) ? $ = fl.1
fl.12.10 = £1
£1 = $4.8520

12.10 4.8520

4.8520 ÷ 12.10 = $.40099 + = .4010, the rate he may bid in New York for florins.

(2) ? fl. = £1
£1 = $4.8520
$.40⅛ = fl.1

40⅛ 4.8520

4.8520 ÷ .40⅛ = 12.0922, or fl.12.09¼, the rate he may bid in Amsterdam for sterling.

The same form of calculations may be carried out to determine the bid and the asked rates for any required country, as well as to prove whether the rates quoted by other bankers are reasonable or not.

TABLE II

STERLING INTO FRANCS

	25.18	25.19	25.20	25.21	25.22
4.85	5.19,18	5.19,38	5.19,59	5.19,79	5.20,00
¼	18,91	19,11	19,32	19,53	19,73
½	18,64	18,85	19,05	19,26	19,47
¾	18,37	18,58	18,79	19,00	19,20
4.86	18,11	18,31	18,52	18,73	18,93
¼	17,84	18,05	18,25	18,46	18,66

Printed tables of parities of exchange, however, are used by arbitragers to facilitate their calculations when it is not necessary to know or use the actual decimals. Tables II and III, which are taken by permission of the author, C. A. Stern, of New York, from his book of "Parities," illustrate the

form and use of such tables. They show, for examp the parity of a sterling rate in New York of 4.85 and rate in London of 25.18 is fr.5.1918; also, that the pa a franc rate in New York of 5.18⅛ and a franc rate in of 81.06 is $.9524.

TABLE III

FRANCS INTO MARKS

	81.04	81.06	81.08	81.10	
5.17½	.95,378	.95,355	.95,331	.95,308	.9
$-\frac{1}{16}$	318	295	271	248	
5.18⅛	263	240	216	193	
$-\frac{1}{16}$	203	180	156	133	

17. The following arbitrage calculations illustra method by which the arbitrager determines which of ways of remitting or transferring credit is the cheape

EXAMPLE 1.—A remittance of mk.100,000 from New York to The direct rate being first given, five arbitrated rates are obta calculation (simple arbitration), and these rates and the remittance by each rate are then compared.

(*a*) Making a remittance direct to Berlin: the rate in New Berlin being .94⅞ or .94875.

(*b*) Making a remittance to Paris and Paris remitting to Be rate in New York on Paris being 5.19⅜, and the rate in Paris on 123.16½.

$$\begin{aligned} ?\ \$ &= \text{mk.}4 \\ \text{mk.}100 &= \text{fr.}123.16\tfrac{1}{2} \\ \text{fr.}5.19\tfrac{3}{8} &= \$1.00 \\ 519.375 \quad & \quad 492.66 \end{aligned}$$

492.66 ÷ 519.375 = .9485631, the arbitrated rate, or about .94

(*c*) Making a remittance to Paris, and Berlin selling its return bill) on Paris: the rate in New York on Paris being 5.1 the rate in Berlin on Paris 81.24.

$$\begin{aligned} ?\ \$ &= \text{mk.}4 \\ \text{mk.}81.24 &= \text{fr.}100 \\ \text{fr.}5.19\tfrac{3}{8} &= \$1.00 \\ 421.94025 \quad & \quad 400 \end{aligned}$$

400. ÷ 421.94025 = .94800155, the arbitrated rate, or about 94¾

(*d*) Making a remittance to Amsterdam and Amsterdam remitting to Berlin: the rate in New York on Amsterdam being .40⅛, and the rate in Amsterdam on Berlin 59.14.

$$\begin{array}{rcl} ?\ \$ & = & \text{mk.}4 \\ \text{mk.}100 & = & \text{fl.}59.14 \\ \text{fl.}1 & = & \$.40\tfrac{1}{8} \\ \hline 100 & & 94.9197 \end{array}$$

94.9197 ÷ 100 = .949197, the arbitrated rate, or about $94\frac{15}{16} - \frac{1}{64}$.

(*e*) Making a remittance to Amsterdam, and Berlin selling its bill (a return bill) on Amsterdam: the rate in New York on Amsterdam being .40⅛, and the rate in Berlin on Amsterdam 169.20.

$$\begin{array}{rcl} ?\ \$ & = & \text{mk.}4 \\ \text{mk.}169.20 & = & \text{fl.}100 \\ \text{fl.}1 & = & \$.40\tfrac{1}{8} \\ \hline 169.20 & & 160.50 \end{array}$$

160.50 ÷ 169.20 = .9485815, the arbitrated rate, or about $94\frac{7}{8} - \frac{1}{64}$.

(*f*) Making a remittance to London, and Berlin selling its bill (a return bill) on London: the rate in New York on London being 4.85¼, and the rate in Berlin on London 20.47.

$$\begin{array}{rcl} ?\ \$ & = & \text{mk.}4 \\ \text{mk.}20.47 & = & £1 \\ £1 & = & \$4.85\tfrac{1}{4} \\ \hline 20.47 & & 19.41 \end{array}$$

19.41 ÷ 20.47 = .9482169, the arbitrated rate, or about $94\frac{7}{8} - \frac{1}{16}$.

Comparison of the rates and cost of remittance, showing (*c*) to be the cheapest.

(*a*)	mk.100,000 @	.94875	=	$23,718.75
(*b*)	mk.100,000 @	.9485631	=	23,714.08
(*c*)	mk.100,000 @	.94800155	=	23,700.04
(*d*)	mk.100,000 @	.949197	=	23,729.93
(*e*)	mk.100,000 @	.9485815	=	23,714.54
(*f*)	mk.100,000 @	.9482169	=	23,705.42

EXAMPLE 2.—A remittance of £25,000 from New York to London. The direct rate being first given, two arbitrated rates are obtained by calculation (compound arbitration), and a comparison made as in example 1.

(*a*) Making a remittance direct to London: the rate on London in New York being 4.85¼.

(*b*) Making a remittance to Paris, Berlin selling its bill (a return bill) on Paris and then remitting to London: the rate on Paris in New York being 5.19⅜, the rate on Paris in Berlin 81.24, and the rate on London in Berlin 20.47.

$$
\begin{array}{rcl}
?\,\$ & = & £1 \\
£1 & = & \text{mk.}20.47 \\
\text{mk.}81.24 & = & \text{fr.}100 \\
\text{fr.}5.19\tfrac{3}{8} & = & \$1.00 \\
\hline
421.94025 & & 2{,}047
\end{array}
$$

2,047 ÷ 421.94025 = 4.8513977, the arbitrated rate, or 4.8515.

The same result follows if the mark rate already obtained under the third method in example 1 is multiplied by 20.47; thus,

$$\frac{\overset{.237}{\cancel{.948}}}{\cancel{4}} \times 20.47 = 4.85139$$

(*c*) Making a remittance to Paris, Berlin selling its bill (a return bill) on Paris and London selling its bill (a return bill) on Berlin: the rate on Paris in New York being 5.19⅜, the rate on Paris in Berlin 81.24, and the rate on Berlin in London 20.46.

$$
\begin{array}{rcl}
?\,\$ & = & £1 \\
£1 & = & \text{mk.}20.46 \\
\text{mk.}81.24 & = & \text{fr.}100 \\
\text{fr.}5.19\tfrac{3}{8} & = & \$1 \\
\hline
421.94025 & & 2{,}046
\end{array}
$$

2,046 ÷ 421.94025 = 4.8490, the arbitrated rate.

The same result follows if the mark rate already obtained under the third method in example 1 is multiplied by 20.46; thus,

$$\frac{\overset{.237}{\cancel{.948}}}{\cancel{4}} \times 20.46 = 4.8490$$

Comparison of the rates and cost of remittance, showing (*c*) to be the cheapest.

(*a*)	£25,000 × 4.85¼	=	$121,312.50
(*b*)	£25,000 × 4.851398	=	121,284.95
(*c*)	£25,000 × 4.8490	=	121,225

18. Interest was not taken into consideration in the preceding calculations, and therefore it is necessary to assume with regard to the rates used in them, either (1) that those rates are cable rates and that the transactions will be effected simultaneously, or (2) that the arbitrager has made the necessary contracts with the bank's correspondents abroad to make their respective transfers at those rates on the date when his remittance from New York will reach its destination.

Interest, however, usually enters into the calculations of the arbitrager, its importance increasing with the distance from one another of the cities involved in the arbitrations.

The reason will be apparent from a comparison of the result obtained in the following calculation with the several costs shown under example 1. This calculation gives the net cost of a remittance from New York to Berlin by means of a return bill on New York sold in Berlin for the equivalent of mk.100,000 under the following conditions: The rate in Berlin for checks in New York is 4.21½ (mk. per $); money in New York is worth 6 per cent., and Berlin allows 3 per cent. interest on credit balances.

A check drawn on New York in Berlin for the equivalent of mk.100,000 would be drawn for $23,724.79 (mk.100,000 ÷ 4.21½). Since the Berlin check will not be presented in New York for from 7 to 10 days—say 9 days—New York will have 9 days' use of $23,724.79 for loaning at 6 per cent. At the same time, New York will receive credit for mk.100,000 in Berlin 9 days earlier than it would have done by remitting a check from New York, and will receive interest on it at 3 per cent. Consequently, interest will be earned in New York and Berlin as follows:

New York:	Interest 9 days at 6% on $23,724.79 (365 days per year)	$35.10
Berlin:	Interest 9 days at 3% on mk.100,000 (360 days per year) mk.75 @ 4.21½	17.79
	Total interest	$52.89

Deducting this interest from the Berlin check, the net cost in New York will be $23,724.79 − 52.89 = $23,671.90, or $28.14 less than under (*c*) in example 1.

Similarly, interest for one or more days may be made on return operations between European points.

Commissions were formerly charged by foreign bankers on such transactions; but they have come into disuse, the banker usually charging a flat rate for the transaction; that is, a rate that includes the commission.

ARBITRAGE OF SECURITIES

19. Although it is not within the scope of this Course to explain stock-exchange operations, still a brief outline of how arbitrage of securities—that is, their purchase and

sale in two or more markets—is accomplished is important, because of its bearing on the foreign-exchange market.

For example, a New York arbitrager finds the equivalent of the London price of a given stock higher than the New York price, the difference being termed *a variation in price in favor of New York*. Accordingly, he buys 1,000 shares in New York and sells 1,000 shares in London and his position is described as *long* of that stock in New York and *short* of it in London. If the variation in price continues in favor of New York, he may continue buying in New York and selling in London, eventually shipping the securities to London, as will be explained. If the reverse is true and the variation in price is in favor of London, the reverse operations are indicated and stocks may come to New York from London.

In order to reduce to a minimum the necessity for shipping securities, it is the general practice of arbitrage firms, so far as possible and profitable, to balance their purchase and sales in each market.

20. London is the most important foreign market for arbitrage in securities. This is due to the practically unlimited listing of American railroad and industrial securities (called in London "Yankees" or "Americans") on the London Stock Exchange; also, to the direct cable connection between London and New York, and the extraordinary rapidity with which messages pass over the cables between these two cities. The distance is over 3,700 miles, but so expert are the operators that a message can be sent from New York to London, executed on the London Stock Exchange, and the reply message delivered in New York, in from 2 to 5 minutes. Hundreds of messages pass back and forth over the same wires every hour during the short time in which business is possible.

The London Stock Exchange is open from 11 A. M. to 3 P. M. Trading, however, is continued for an hour longer, and on account days for 1½ hours longer. After 4 or 4:30 P. M., the trading is transferred to what is known as *Shorter's Court*, a place connecting with the stock exchange but not a part

of it. At this place, trading is continued sometimes as late as 8 P. M., though ordinarily not later than 5 or 6 P. M. Shorter's Court corresponds to the curb market in New York. The difference in time between London and New York is 5 hours, so that it is 3 P. M. in London when the New York Stock Exchange opens and 8 P. M. when it closes. In New York, all trading operations on the stock exchange made before 3 P. M. are adjusted at the end of each day, and the deliveries of securities and settlements of differences are made the business day following, before 2:15 P. M. Friday's deliveries and settlements, however, together with those of Saturday, are made on the following Monday.

21. Settlement Days.—In London, all transactions on the stock exchange in securities other than British consols,* except cash transactions, are adjusted twice a month at what is called the **fortnightly settlement.** Transactions in consols are settled once a month.

The fortnightly settlement occupies four consecutive days, known as the *mining contango day*, the *general contango day*, the *ticket day*, and the *account*, *settlement*, or *pay*, *day*. These days are fixed sometime in advance by the Committee of the London Stock Exchange. Each month is thus divided into two parts, called the *middle*, or *mid*, and the *end* accounts. Calendars such as shown in Fig. 4 are printed so that stock-exchange members, bankers, and brokers may know in advance when the settlement will take place.

The **contango, or making-up, days** are the days on which all the operations of each account are made up. Every stock-exchange firm that is a seller gives notice of what stocks and shares it will deliver. Customers notify their brokers as to what stocks they wish to carry over to the next settlement and make arrangements for such

* Consols form a part of the obligations of the British Government. Nine loans of the government, in the form of annuities, were consolidated into a 3-per-cent. stock (bond) in 1751. In 1888 they were converted into $2\frac{3}{4}$ per cents., and in 1903 into $2\frac{1}{2}$ per cents. The word *consols* is used as an abbreviation of Consolidated Annuities, Stocks, or Bonds.

THE LONDON STOCK-EXCHANGE ACCOUNT CALENDAR FOR

JANUARY

1907.

MID. JAN. ACCOUNT 19 DAYS.

DEC 1906.					
S	29		T	8	
$	30		W	9	
M	31		Th	10	
JAN. 1907.					
T	1	Stock-Exchange CLOSED.	F	11	
W	2		S	12	
Th	3		$	13	
F	4	CONSOLS Settling Day.	M	14	
S	5		T	15	TICKET DAY.
$	6		W	16	ACCOUNT DAY.
M	7	Buying-in day. End Dec. a/c.			

TICKET DAYS. ACCOUNT DAYS.

TICKET DAYS.	ACCOUNT DAYS.
TUESDAY - - 15th	WEDNESDAY 16th
WEDNESDAY 30th	THURSDAY - 31st

CONSOLS.

Friday, JAN. - - 4th | Monday, FEB. - - 4th

END JAN. ACCOUNT 15 DAYS.

Th	17		F	25	
F	18		S	26	Buying-in day. Mid. Jan. a/c.
S	19		$	27	
$	20		M	28	
M	21		T	29	
T	22		W	30	TICKET DAY.
W	23		Th	31	ACCOUNT DAY.
Th	24				

BUYING-IN DAYS.

END DEC. ACCOUNT - MONDAY - - - - 7th | MID. JAN. ACCOUNT - SATURDAY - - - 26th

Account Days for February, Thursday, 14th and Thursday, 28th

FIG. 4

carry-over or continuation. For this accommodation, the customer pays his broker interest for the stocks carried over *long*, and receives from him interest for the stocks carried over *short*. This is due to the fact that since the broker advances money on the stocks carried over *long*, he charges his customer interest for doing so; while, since the customer advances money to the broker as security for the stocks carried over *short*, he receives interest from the broker on it.

The interest is called **contango,** and the customer is said to have *contangoed* the stock. A seller that is short of stock so that he cannot make a delivery may be obliged to borrow until the next settlement, and for the accommodation may allow interest; or, the person from whom he borrows the stock may charge him a premium, called *backwardation*. This latter is a rare occurrence.

The **ticket,** or **name, day** is the day on which the tickets in confirmation of the trades made are exchanged. These tickets are for clearing purposes and are treated as stock.

The **account, settlement,** or **pay, day** is the day on which all deliveries of securities are made, and on which all cash differences are settled or paid.

Buying-in day occurs 10 days after each settlement. By the rules of the London Stock Exchange, sellers must complete their deliveries of stocks within that time. If this has not been done, on that day the buyer gives instructions to the official broker (the broker of the Stock Exchange Committee) to buy in the undelivered stocks for account of the seller, who must make good any differences resulting from an advance in prices. An advance in price is the usual reason for the non-delivery of stocks sold.

22. London Quotations.—American stocks are bought and sold in London at a fixed rate of $5 = £1, or $.25 = 1 shilling. This is two-thirds of 1 cent. per shilling higher than the par value of the shilling, or $2\frac{2}{3}$ per cent., so that the London quotation is said to be $2\frac{2}{3}$ per cent. above the New York quotation. The rate of exchange, however, alters this difference, so that in order to arrive at the exact equivalent

of a London quotation in New York, it is necessary to take the rate into consideration. To find the exact equivalent:

Divide the rate of exchange by 5, or multiply it by .2 (the same thing), and then multiply the London quotation by the result.

EXAMPLE.—Find the equivalent of a London quotation of $.49\frac{1}{2}$ for United States steel, at the following rates of exchange: (*a*) 4.83; (*b*) 4.85; (*c*) $4.86\frac{1}{2}$.

(*a*) $4.83 \times .2 = .966$; $.49\frac{1}{2} \times .966 = .47817$, or about $.47\frac{13}{16}$. Ans.
(*b*) $4.85 \times .2 = .97$; $.49\frac{1}{2} \times .97 = .48015$. Ans.
(*c*) $4.86\frac{1}{2} \times .2 = .973$; $.49\frac{1}{2} \times .973 = .481635$. Ans.

Table IV illustrates a form of conversion table prepared to show the exact equivalents in New York of different London quotations at different rates of exchange.

TABLE IV

CONVERSION TABLE

Rates of Exchange	4.84	$4.84\frac{1}{4}$	$4.84\frac{1}{2}$	$4.84\frac{3}{4}$	4.85	$4.85\frac{1}{4}$	$4.85\frac{1}{2}$
Multipliers	.968	.9685	.969	.9695	.97	.9705	.971
London Quotations							
50	48.40	48.425	48.45	48.475	48.50	48.525	48.55
$50\frac{1}{8}$	48.521	$48.546\frac{1}{16}$	$48.571\frac{1}{8}$	$48.596\frac{3}{16}$	$48.621\frac{1}{4}$	$48.646\frac{5}{16}$	$48.671\frac{3}{8}$
$50\frac{1}{4}$	48.642	$48.667\frac{1}{8}$	$48.692\frac{1}{4}$	$48.717\frac{3}{8}$	$48.742\frac{1}{2}$	$48.767\frac{5}{8}$	$48.792\frac{3}{4}$
$50\frac{3}{8}$	48.763	$48.788\frac{3}{16}$	$48.813\frac{3}{8}$	$48.838\frac{9}{16}$	$48.863\frac{3}{4}$	$48.888\frac{15}{16}$	$48.914\frac{1}{8}$
$50\frac{1}{2}$	48.884	$48.909\frac{1}{4}$	$48.934\frac{1}{2}$	$48.959\frac{3}{4}$	48.985	$49.010\frac{1}{4}$	$49.035\frac{1}{2}$

23. Shipping Securities.—Shipments of securities are constantly made back and forth between London and New York. Some of these shipments are made to meet requirements for investment purposes; others to meet the requirements of stock-exchange operations. These shipments may be made at any time, but to avoid loss in interest, those from New York to London are timed as closely as possible for arrival on or just before pay, or settlement, day, because the London broker will charge interest from arrival to settlement day. Shipments from London to New York are usually made on or immediately following the settlement day.

24. Expenses in New York.—On the London Stock Exchange, certificates of more than 10 shares of $100 each or of more than 20 shares of $50 each are not a good delivery. On the New York Stock Exchange, certificates of more than 100 shares each are not a good delivery. American stocks are usually issued in certificates of 100 shares each. Consequently, American certificates, if intended for shipment to London, must first be divided to meet the requirements of the London Stock Exchange. This division of certificates is called splitting and usually costs $2.25 per 100 shares. Some transfer offices make no charge for splitting. Arbitragers try to obtain certificates already split for shipment.

25. Expenses in London.—Fresh certificates for "Yankees" when entering Great Britain require revenue stamps at the rate of £1 per 100 shares. Arbitragers try to obtain certificates already stamped for shipments to London. Contracts of purchase or of sale are required for all transactions and each contract must bear a revenue stamp of 1 shilling for each class of securities. A contract may cover several separate transactions, but more than a 1-shilling stamp is required only when these transactions are for more than one class of securities.

26. Brokerage, or Commission.—In New York, the commission charged to non-members is $\frac{1}{8}$ per cent. of the par value for buying and the same for selling, or $\frac{1}{4}$ per cent. on the round trade. To members, $\frac{1}{32}$ per cent. or more may be charged, if the position is carried over night.

In London, the **brokerage** on Yankee shares is generally 6 pence to outsiders and 3 pence to other stock-exchange houses.

27. Shipping and Insurance.—Securities are shipped through the mails, the postage varying according to the weight of the certificates. The insurance is approximately $\frac{1}{2}$ per mill on the value attached.

The collection of the amount due for securities shipped to London is usually made by means of a demand bill of exchange attached to the securities and sold to a foreign-exchange bank by the arbitrage house in New York. The

payment of the amount due for securities received from London is made either in the same way, that is, by a demand bill drawn on the New York house and negotiated through a London bank, or by the purchase, by the New York house, of a cable transfer to the London broker of the required amount. In the latter case, in arriving at the net returns, the New York arbitrager must add to the cost of the cable transfer the interest for the number of days required for the stock to reach his hands.

The following statement illustrates the calculation necessary to determine the profit resulting from the purchase of 500 shares of United States steel, common, in New York and their sale in London when requiring shipment from New York. It is assumed that the certificates were bought in New York at $47\frac{1}{2}$ and sold in London at $49\frac{11}{16}$; that the demand rate of exchange in New York was 4.83; that they required splitting; that they were shipped to reach London on the settlement day; and that no brokerage was paid in New York.

COST IN NEW YORK

500 shares United States steel common, at $47\frac{1}{2}$,		\$23,750.00
Add expenses		
Splitting at 2.25 per 100 shares	\$11.25	
Insurance $\frac{1}{2}$‰	11.88	
Postage	2.50	
Cable	1.00	26.63
		\$23,776.63

PROCEEDS IN LONDON

500 shares United States steel common, at $49\frac{11}{16}$,		£4,968 15s.
Deduct expenses		
Brokerage 3d. per share	£6 5s.	
Contract stamp	1	
Certificate stamp	5	
Cable	4	11 10s.
		£4,957 5s.

£4,957 5s. at 4.83 =	\$23,943.52
Deduct cost	23,776.63
Profit	\$166.89

If the stock should arrive in London one or more days before the settlement, the London broker will charge the New York arbitrager interest until settlement day at the market rate, because he is obliged to pay the relative bill

exchange on demand. In the case of a shipment of securities from London to New York, two items of expense just shown are avoided; namely, the revenue stamp of £1 per 100 shares in London and the cost of splitting certificates in New York.

28. Relation of Stock-Exchange Operations to Money Markets.—The following will give some idea of the relation of stock-exchange operations in London and New York to the money markets and to the foreign-exchange market:

London	New York
Transactions effected between the settlements—except cash transactions—are free of interest, because no payments are involved in those transactions until the settlement.	All transactions are practically subject to interest, because the payments of all differences must be made daily.
The settlement being made fortnightly, involves the turnover of a smaller amount of capital in proportion to the total transactions than in New York. The reason for this is that opportunity is afforded in the intervening time for the evening-up, or balancing, of a greater number of transactions than in New York.	The settlement being made daily, involves—during a period equal to that between the London settlements—a total turnover of capital larger in proportion to the total transactions than in London. The reason for this is that the evening-up, or balancing, of positions can take in the transactions of 1 day only, except that Friday and Saturday are settled together.
The magnitude of the turnover is so great that the sterling rates of exchange are often appreciably affected by it during and just before the settlement.	The daily turnover is not so great ordinarily as to produce any appreciable effect on the rates of exchange that will compare with that of the London settlement.
The infrequency of the settlement is undoubtedly *one* of the factors contributing to the stability of the money rates in London; that is, it makes the control of the rates by the Bank of England a less difficult matter than it would otherwise be, because it is possible to gauge the money requirements with reasonable accuracy.	The frequency of the settlements is undoubtedly *one* of the factors contributing to the instability of the money rates in New York, because bankers and stock speculators make use of the difficulty of gauging the requirements of the money market to force up the call money rates (corresponding to the contango in London).

GOLD MOVEMENTS

29. Gold is just as much a commodity as any other metal, but acquires the additional capacity or quality of money when it receives the stamp of a government, whether in the form of coin or of bars. Gold is shipped from one country to another sometimes as money and sometimes as merchandise, but, in the published reports of the total exports and imports of a country, it is regarded generally as merchandise.

Gold is produced in many countries of the world, although the production of some countries is very limited. The total annual production of the world increased from an average of over $120,000,000 between 1851 and 1890 to nearly three times that amount in 1904, when it was about $347,000,000. Of this, Australasia, Africa, and America (the United States) produced about $85,000,000 each; Russia, about $25,000,000; Canada, about $16,000,000; and Mexico and British India, about $12,000,000 each. Of the total production for 1904, it is estimated that about $80,000,000 was used for industrial purposes, and that the balance was used to increase the world's stock of money. Some countries require for their own use only a part of the gold they produce, and therefore send the surplus to other countries for sale, generally to the London market, where it is sold to the highest bidder. Sometimes, the demand for gold is so great that it is bought before shipment to London, or while in transit.

CAUSES OF GOLD MOVEMENTS

30. International movements of gold may be classified as *normal* and *special*. A movement of gold from a debtor country in settlement of its foreign obligations may be called a **normal movement of gold**. A movement of gold that has been purchased by a country solely for the purpose of strengthening its financial position may be called a **special movement of gold**. Special movements usually occur when normal movements do not furnish a country with the necessary supply of gold.

31. Normal Movements of Gold.—The export point of exchange is reached when it is as cheap to buy and export gold as it is to buy and remit bills of exchange. When this point is reached in any country, a normal movement of gold is indicated. However, gold is not always exported when the rates indicate that it should be. This is due to the fact that in some countries any reduction in the stock of gold is regarded with apprehension, and various expedients are used to prevent its export. Normal exports of gold meet with the least interference in England and America.

The expedients most frequently adopted to prevent the exporting of gold are: (1) Borrowing money in foreign countries; (2) selling or unloading securities in foreign countries; (3) advancing the rate of discount as an attraction to foreign capital; (4) charging a premium for gold. Of these expedients, the first two have the direct effect of increasing the supply of bills, while the third increases foreign deposits, thus tending to make the rates of exchange decline, so that the export of gold is deferred because it is unprofitable. If one or more of these expedients can be employed for a sufficient length of time, until either the demand for bills has decreased or the supply increased, or both, the desired result will be attained and gold will not have to be exported. The Bank of England has become noted for its use of the third expedient. This bank must give up gold at a certain figure, because its notes are redeemable in gold on demand. Its main protection, therefore, is the power to raise the discount rate. On rare occasions this bank has resorted to the fourth expedient, because, finding it necessary to outbid other buyers, it practically places a premium on gold. In contrast to the Bank of England, the Bank of France protects itself by arbitrarily placing any premium it likes on gold or by refusing to sell. It can do this, because its notes are redeemable in gold or silver, at its option.

The effect of the fourth expedient—charging a premium for gold—is to advance the export point of exchange beyond the usual figure, thus deferring the normal movement of gold; it gives an opportunity for a change in conditions,

whereby an increase in the supply of bills or a decrease in the demand for them, or both, will have the desired result, preventing gold exports. The Bank of France and the Reichsbank are noted for their use of this expedient.

During the Russo-Japanese war, Japan, acting through the Yokohama Specie Bank, adopted a novel method of preventing gold exports. An agreement was entered into between that bank and the other principal banks doing a foreign-exchange business by which the rates of exchange each day were arbitrarily fixed below the gold-export point. Any losses resulting to these banks therefrom were made good to them by the Specie Bank for the government.

32. Special Movements of Gold.—When the government and banking interests of a country consider that the country's financial position should be strengthened by increasing its gold reserve, gold is bought and imported for this purpose. This gold may be purchased at foreign mines, or in a foreign market, or from a country that is willing to sell. The purchase is made with less regard to the cost than to the immediate necessity for the gold, and creates an obligation on the part of the importing country corresponding to that created by the purchase of any other merchandise.

In European countries, purchases of gold for this purpose are made by the government banks. The Bank of France, the Reichsbank, and other banks will frequently pay a premium in order to get possession of gold when they consider it necessary to buy. As London is the principal gold market of the world, the Bank of England can frequently obtain a supply when required without extra expenses.

33. In America, where there is no government bank, the situation is different, the production and normal inflow of gold being usually sufficient for all needs. In the winter of 1894–95, however, the advocates of free silver in Congress made it very difficult for the government to carry out its determination to meet, in gold, all obligations that were payable in coin. The domestic and the foreign demands for gold—especially the foreign—were so heavy, that early

in 1895, the total gold reserve in the United States treasury had been reduced to $41,889,995. To prevent any further drain of gold and to replenish the stock in the treasury, extraordinary measures became necessary, for the conditions of the foreign-exchange market required reversal. It was found that the only way to accomplish this was to float an issue of government bonds in Europe and America. Accordingly, the government entered into a contract with a syndicate of bankers, known as the Belmont-Morgan Syndicate, under which the latter agreed to supply the government with gold to the value of $65,117,500 (some 3,500,000 ounces), of which at least one-half was to be imported. In payment of this, the government issued 4-per-cent. bonds at a premium of about 104½. The Syndicate had previously obtained the cooperation of prominent European bankers—the house of Rothschild being represented in New York by Belmont and Company—and the bonds were taken up, the necessary gold was bought, and the rates of exchange dropped; thus, the credit of the government was strengthened, confidence was restored, and the panicky condition of the money market was relieved.

Again, in the spring of 1906, a situation was created that called for a considerable increase in the country's supply of gold. The rates of exchange approached the usual import points, but it was apparent that the banks would not be able to obtain sufficient gold in the usual or normal way. This situation was the result of a combination of causes—the stringency of the New York money market, the disaster that overtook San Francisco, and the fact that, although the United States treasury held more gold than was necessary, under the then existing treasury system there was no way to release it for the good of the country. Accordingly, in order to facilitate gold imports the Secretary of the Treasury offered to make advances of an amount of gold equal to that contracted for to any national bank that would make the necessary contract for its importation, imposing two conditions: (1) That those banks deposit approved railroad and municipal bonds with him as collateral security for the gold received from

him; and (2) that they return to the treasury the sum deposited by him immediately on the arrival of the gold purchased. This offer was accepted by a large number of banks, and as a result gold to the amount of $52,000,000 was contracted for during the months of April and May. It is impossible to make an actual division of this amount, to show how much, if any, would be considered properly as *special*.

The immediate result of this action was that gold was made available to the country as rapidly as it was contracted for abroad; and that relieved the money market. The gold reserve of the country was also increased without loss to the importing banks, for they realized a profit that would have been too small to make the operation attractive if interest on the gold while in transit had not been eliminated from its cost, for call-money rates at the time were very high.

GOLD SHIPMENTS

34. Calculations.—To determine whether gold can be imported or exported profitably, the banker must ascertain the actual cost or proceeds of a shipment and compare the same with the rate of exchange. The different steps by which this is done are as follows:

1. *Valuation:* Determining the actual value of a given quantity of gold of an assayed or known fineness, as the basis of determining the parity.

2. *Parity:* Determining the equivalent, expressed in a rate of exchange, of the buying price of gold in a foreign country, or of its selling price in that country, as the case may be; that is, the parity.

3. *Expenses:* Reducing the cost of shipment—packing, cartage, freight, insurance, interest, abrasion, etc.—to decimals of the rate of exchange.

4. *Comparison or Arbitrage:* Comparing the actual cost—the parity plus expenses, if an export, and the parity less expenses, if an import—with the rates of exchange, direct and arbitrated.

35. Valuation.—In international transactions, gold in bullion and coin is bought and sold by weight only, in each country the prices quoted being for gold of a given fineness and unit of weight. For example, in America, the assay office of the mint receives and delivers gold on the basis of the value in dollars of an ounce of fine gold; in Great Britain, the Bank of England buys and sells gold on the basis of the value in shillings of an ounce of gold $\frac{11}{12}$ fine, the British standard; in France, the Bank of France buys and sells gold on the basis of the value in francs of a kilogram, either of fine gold or of gold $\frac{9}{10}$ fine, the French standard; in Germany, the Reichsbank buys and sells gold on the basis of the value in marks of a kilogram or $\frac{1}{2}$ kilogram of fine gold. In the country of issue, gold coins are bought from other countries by weight, but they are usually sold at their face value.

Tables V to VIII, inclusive, give the valuations in four currencies of the ounce and kilogram of fine gold; of gold $\frac{9}{10}$ fine, the standard generally used; and of gold $916\frac{2}{3}$, or $\frac{11}{12}$ fine, the British standard. The calculations by which these valuations are determined are given under each table. These valuations may be used as invariable values, known in mathematics as constants, from which the values of other weights of gold and degrees of fineness may be calculated.

NOTE.—The word *kilo* (pronounced keelo), the abbreviated form of kilogram, is in more general use than kilogram, and is therefore substituted for it in these tables and elsewhere.

TABLE V

GOLD VALUATIONS, IN AMERICAN DOLLARS

	Weight and Fineness	Value
(*a*)	1 oz. gold, $\frac{9}{10}$ fine, standard	$ 18.6046511
(*b*)	1 oz. gold, fine	20.6718346
(*c*)	1 oz. gold, $\frac{11}{12}$ fine, British standard	18.9491817
(*d*)	1 kilo gold, $\frac{9}{10}$ fine, standard	598.1533[illegible]4
(*e*)	1 kilo gold, fine	664.6148[illegible]2
(*f*)	1 kilo gold, $\frac{11}{12}$ fine, British standard	609.2302[illegible]5

NOTE.— $800 gold is coined from 43 ounces of standard gold, $\frac{9}{10}$ fine.

CALCULATIONS

(*a*)

? $ = 1 oz. standard
43 oz. standard = $800

43   800

800 ÷ 43 = $18.6046511.

(*b*)

? $ = 1 oz. fine
$\frac{10}{9}$ oz. fine = 1 oz. standard
43 oz. standard = $800

[illegible]   8000

8000 ÷ [illegible] = $20.6718346.

(*c*) [illegible]

? $ = 1 oz. British standard
1 oz. British standard = [illegible] oz. fine
[illegible] = [illegible] American standard
[illegible] = $800

[illegible]

[illegible] = $18.9491817.

[illegible] of an ounce [illegible]

[illegible]

= $ [illegible]

[illegible]

= $664.61482.

and (*f*) may be obtained by multiplying the value of a kilo of ld by the fineness.

$$\$664.61482 \times \tfrac{9}{10} = \$598.15334$$
$$\$664.61482 \times \tfrac{11}{12} = \$609.23025$$

TABLE VI

GOLD VALUATIONS, IN POUNDS STERLING

Weight and Fineness	Value		
	£	s.	d.
oz. gold, $\frac{11}{12}$ fine, British standard . .	3	17	$10\frac{1}{2}$
oz. gold, fine	4	4	$11\frac{1}{2}$
oz. gold, $\frac{9}{10}$ fine, general standard .	3	16	$5\frac{1}{2}$
kilo gold, $\frac{11}{12}$ fine, British standard . .	125	3	$8\frac{9}{10}$
kilo gold, fine	136	11	$4\frac{22}{100}$
kilo gold, $\frac{9}{10}$ fine, general standard .	122	18	$2\frac{6}{10}$

E.— £1,869 is coined from 40 pounds of standard gold .916$\frac{2}{3}$, or ; the value of 1 oz. British standard gold is the basis of all tations in London.

CALCULATIONS

$$\begin{array}{rcl} ?\,£ &=& 1 \text{ oz. British standard} \\ 12 \text{ oz.} &=& 1 \text{ lb.} \\ 40 \text{ lb.} &=& £1{,}869 \\ \hline 480 & & 1{,}869 \end{array}$$

$$1{,}869 \div 480 = £3.89375 = £3\ 17\text{s.}\ 10\tfrac{1}{2}\text{d.}$$

$$\begin{array}{rcl} ?\,£ &=& 1 \text{ oz. fine} \\ \tfrac{11}{12} \text{ oz. fine} &=& 1 \text{ oz. standard} \\ 1 \text{ oz. standard} &=& £3.89375 \\ \hline \tfrac{11}{12} & & 3.89375 \end{array}$$

$$3.89375 \div \tfrac{11}{12} = £4.24772727 = £4\ 4\text{s.}\ 11\tfrac{1}{2}\text{d.}$$

$$\begin{array}{rcl} ?\,£ &=& 1 \text{ oz. general standard} \\ 1 \text{ oz. standard} &=& \tfrac{9}{10} \text{ oz. fine} \\ \tfrac{11}{12} \text{ oz. fine} &=& 1 \text{ oz. British standard} \\ 1 \text{ oz. British standard} &=& £3.89375 \\ \hline \tfrac{11}{12} & & 3.504375 \end{array}$$

$$3.504375 \div \tfrac{11}{12} = £3.822954 = £3\ 16\text{s.}\ 5\tfrac{1}{2}\text{d.}$$

orter method for (*c*) is to multiply the value of an ounce of fine y $\frac{9}{10}$, the general standard; as,

$$£4.24772727 \times \tfrac{9}{10} = £3.8229545 = £3\ 16\text{s.}\ 5\tfrac{1}{2}\text{d.}$$

(d) ? £ = 1 kilo British standard
1 kilo = 1,000 g.
31.1034812 g. = 1 oz.
1 oz. = £3.89375

31.1034812 | 3,893.75

3,893.75 ÷ 31.1034812 = £125.188[illegible] = £125 3s. [illegible]d.

(e) may be obtained, as in (b), by dividing the value of 1 kilo of British standard gold by $\frac{11}{12}$, as

£125.188[illegible] ÷ $\frac{11}{12}$ = £136.5[illegible] = £136 11s. [illegible]d.

(f) may be obtained by multiplying the value of 1 kilo of fine gold by $\frac{9}{10}$, as

£136.5[illegible] × $\frac{9}{10}$ = £122.9[illegible] = £122 18s. [illegible]d.

TABLE VII

GOLD VALUATIONS IN FRANCE

Weight and Fineness	Value
(a) 1 kilo gold, $\frac{9}{10}$ fine, general standard	fr.3,100
(b) 1 kilo gold, fine	3,444$\frac{4}{9}$
(c) 1 kilo gold, $\frac{11}{12}$ fine, British standard	3,157.407[illegible]
(d) 1 oz. gold, $\frac{9}{10}$ fine, general standard	96.420[illegible]
(e) 1 oz. gold, fine	107.1342[illegible]
(f) 1 oz. gold, $\frac{11}{12}$ fine, British standard	98.2063[illegible]

NOTE.—Fr 3,100 is coined from 1 kilo of standard gold, 900 or $\frac{9}{10}$ fine.

CALCULATIONS

(b) may be obtained by dividing the value of 1 kilo of standard gold by $\frac{9}{10}$, as

fr 3,100 ÷ $\frac{9}{10}$ = fr 3,444.444444, or fr 3,444$\frac{4}{9}$

(c) may be obtained by multiplying the value of 1 kilo of fine gold by .91$\frac{2}{3}$ or $\frac{11}{12}$, as

fr 3,444$\frac{4}{9}$ × $\frac{11}{12}$ = fr 3,157.407407

(d) ? fr = 1 oz. standard
1 oz. = 31.1034812 g.
1 kilo = 1,000 g. = fr 3,100

1,000 | 96,420.791472

96,420.791472 ÷ 1,000 = 96.420791472

(e) and (f) may be obtained by the same methods as (b) and (c), respectively, as

(e) fr 96.420791472 ÷ $\frac{9}{10}$ = fr 107.1342127
(f) fr 107.1342127 × $\frac{11}{12}$ = fr 98.2063617

TABLE VIII

GOLD VALUATIONS, IN MARKS

Weight and Fineness	Value
o gold, fine	mk.2,790
ɔ gold, $\frac{11}{12}$ fine, British standard	2,557.50
ɔ gold, $\frac{9}{10}$ fine, general standard	2,511
gold, fine	86.778712
gold, $\frac{11}{12}$ fine, British standard .	79.547153
gold, $\frac{9}{10}$ fine, general standard.	78.100841

·Mk.2,790 is coined from 1 kilo of fine gold.

CALCULATIONS

(*c*) may be obtained by multiplying **the value of 1 kilo of**
ıy $\frac{11}{12}$ and $\frac{9}{10}$, respectively.

? mk. = 1 oz. fine
1 oz. = 31.10348112 g.
1 (kilo) 1,000 g. = mk.2,790
1,000 86,778.712
86,778.712 ÷ 1,000 = **86.778712.**

(*f*) may be obtained by multiplying the value of 1 **ounce of**
ıy $\frac{11}{12}$ and $\frac{9}{10}$, respectively.

Vhen an assay of gold varies from the fine or from lard, as, for example, .995 or .897, ***multiply the of fine gold by the actual fineness as reported by the ɪnd the product will be the exact value of the gold.*** ign countries, when buying gold in coin instead of ı, the custom is not to assay it. The price paid is ıately the same as the price that would be paid for of the same standard of fineness; but the price is ɜs based on an arbitrary standard of fineness that is .ower than the actual standard. For example, in gles are generally bought at an arbitrary standard ss of .899$\frac{4}{10}$, the price being 3,091.23 francs per ereigns are generally bought at an arbitrary stand- ıeness of .916, the price being 3,148.29 francs per

In London, eagles, francs, and marks that are of dard, namely, .900, are bought at prices varying

from 76s. 3½d., or 915½ pence, to 76s. 4½d., or 916½ pence. A price of 76s. 4d., or 916 pence, for gold .900 fine is practically the equivalent of 77s. 9d., or 933 pence, which is the buying price of bar gold .916⅔ fine. In New York, when foreign gold coin is sold to the assay office, it is generally melted and assayed as bullion. A considerable quantity, however, is held by banks for sale to travelers and others.

37. Parity.—The actual **parity** of gold generally differs from the mint parity. This is due to the fact that in foreign countries the government banks when buying or importing gold endeavor to obtain it at a price lower than the mint parity, to cover the cost of coinage, while, when selling or exporting gold, they may, as already explained, charge a premium. The difference is usually 2 per mill or ⅕ of 1 per cent., but in some countries it is greater.

The actual parity of gold between two countries is composed of the two following factors:

1. The buying price of gold in the country to which it is to be exported, or the selling price of gold in the country from which it is to be imported; this price is always quoted for gold of a unit of weight and of a degree of fineness stated in the quotation or known by usage.

2. The valuation of gold of the unit of weight and degree of fineness that is specified in the quotation; this valuation is always in the currency of the country that receives the quotation.*

Rule for Finding the Gold Parity.—*Divide the valuation by the price quoted, if the rate of exchange is quoted in the domestic currency, but reverse the figures—divide the price by the valuation—if the rate of exchange is quoted in a foreign currency.*

Tables IX to XIII, inclusive, give the usual buying and selling prices of gold in the cities named, the parities of these prices in each city, and the calculations to be performed in order to obtain the parities.

*If the valuation has not been previously made, the entire calculation may be made by the conjoined rule.

TABLE IX

USUAL BUYING AND SELLING PRICES OF GOLD

City	Buying Price	Selling Price
ew York . .	$20.6718346 per ounce fine	$20.6718346 per ounce fine
ndon . . .	£3 17s. 9d. or £3.8875 per ounce .916⅔ fine	£3 17s. 10½d. or £3.89375 per ounce .916⅔ fine
ris	fr.3,437 per kilo fine	fr.3,437 plus a premium of 3 to 5‰ per kilo fine
rlin	mk.1,392 per German pound (½ kilo) fine (mk.2,784 per kilo)	mk.1,392 plus 2‰ premium per German pound (½ kilo) fine (about 1,395) (mk.2,790 per kilo)

TABLE X

RITIES IN NEW YORK OF PRICES GIVEN IN TABLE IX

City	Prices	Parities	Calculations to be Performed to Obtain the Parities (See Rule)
ndon . .	Buying	$4.8743875	18.9491817 ÷ 3.8875
	Selling	$4.8665635 (mint parity)	18.9491817 ÷ 3.89375
ris . .	Buying	fr.5.17141643	3,437 ÷ 664.61482
	Selling	fr.5.1921051	3,437 + 4‰ premium = 3,450.75 3,450.75 ÷ 664.61482
rlin . .	Buying	$ .95490635	664.61482 ÷ $\frac{2784}{4}$
	Selling	$ .9528528	664.61482 ÷ $\frac{2790}{4}$

TABLE XI

PARITIES IN LONDON OF PRICES GIVEN IN TABLE IX

City	Prices	Parities	Calculations to be Performed to Obtain the Parities (See Rule)
ew York	Buying Selling	$4.8665635 (mint parity)	20.6718346 ÷ 4.24772727
aris . .	Buying	fr.25.1670265	3,437 ÷ 136.567584
	Selling	fr.25.26771	3,437 + 4‰ premium = 3,450.75 3,450.75 ÷ 136.567584
erlin . .	Buying	mk.20.38551	2.784 ÷ 136.567584
	Selling	mk.20.4294454	2,790 ÷ 136.567584

TABLE XII

PARITIES IN PARIS OF PRICES GIVEN IN TABLE IX

City	Prices	Parities	Calculations to be Performed to Obtain the Parities (See Rule)
New York	Buying Selling	fr.5.18261754 (mint parity)	$107.1342127 \div 20.6718346$
London	Buying	fr.25.262086	$98.2063617 \div 3.8875$
	Selling	fr.25.22153	$98.2063617 \div 3.89375$
Berlin	Buying	fr.123.72286	$3{,}100 \div 2{,}505.60 \times 100$*
	Selling	fr.123.45679	$3{,}100 \div 2{,}511 \times 100$*

*The French rate for marks is quoted per 100 marks.

TABLE XIII

PARITIES IN BERLIN OF PRICES GIVEN IN TABLE IX

City	Prices	Parities	Calculations to be Performed to Obtain the Parities (See Rule)
New York	Buying Selling	mk.4.1979202 (mint parity)	$86.778712 \div 20.6718346$
London	Buying	mk.20.4622902	$79.547153 \div 3.8875$
	Selling	mk.20.4294454	$79.547153 \div 3.89375$
Paris	Buying	mk.81.1754437	$2{,}790 \div 3{,}437 \times 100$*
	Selling	mk.80.8519887	$2{,}790 \div 3{,}437 + 4‰$, or $3{,}450.75 \times 100$*

*The German rate for francs is quoted per 100 francs.

38. Expenses.—It is, of course, impossible to give the exact cost of gold shipments. It is possible, however, to name and explain the different items that enter into the cost, and to make a statement of the expenses between London and New York that will so closely approximate the actual cost that it will serve as a guide in estimating expenses.

1. *Freight.*—The freight rates between different points vary with their distances from one another. Also, the freight rate quoted on gold for export to one country may differ from that quoted on gold for import from that country

For example, a rate of $\frac{1}{8}$ per cent. of the value has been made from New York to London, while $\frac{5}{32}$ per cent. was made from London to New York. Similar rates have been made between New York and Paris.

2. *Insurance.*—The insurance rates vary with the distance and the risk. Between New York and London or Paris, a rate of $\frac{1}{2}$ per mill has been made, and in some cases a 10-per-cent. rebate is allowed, making .00045 net.

3. *Packing and Cartage.*—Gold is packed for shipment in heavy kegs or small boxes that will hold from 200 to 500 pounds each. The cost of the keg or box, of packing it, and of cartage, is estimated at about $\frac{1}{10}$ per mill, or about $\frac{4}{50}$ per mill at the shipping point and $\frac{1}{50}$ per mill at destination.

4. *Assay.*—On all gold bars taken for export, the assay office in New York charges 4 cents per $100, or $\frac{4}{10}$ per mill. There are slight differences in the accuracy with which gold bars are assayed in different countries. Consequently, the New York assay office makes a practice of melting and assaying all imported foreign gold delivered to it, charging for this $1 for each melt and 2 cents per ounce for any copper that may be required to bring the gold to the American standard. In European countries, the charge for assaying is made per bar, and varies from about $\frac{1}{8}$ per mill to $\frac{1}{2}$ per mill. To cover possible loss due to possible overassays (overvaluation in the assay) of gold abroad, the American banker makes an allowance of $\frac{1}{10}$ to $\frac{1}{8}$ per mill on all gold bars imported. The American assay office has such a well-established reputation for accuracy that no allowance need be made on exports of bar gold that bear the stamp of that office.

5. *Loss in Weight.*—The loss in weight due to abrasion is so slight in the case of bar gold that no allowance is made for it; in the case of coin, however, the loss is estimated at $\frac{1}{10}$ to $\frac{1}{2}$ per mill.

6. *Interest.*—Interest figures in the cost of a gold shipment: (*a*) When the mint or government bank at destination does not make full return for gold bars until after an assay has been made. In New York, the assay office pays

down 90 per cent. of the value of bars that bear the stamps of well-known assay offices and of coin (if to be melted), and the balance usually in 5 days. In other countries, similar rules prevail. The interest for these delays may be calculated as follows: 5 days on 10 per cent. (unpaid) = $\frac{1}{2}$ day on the entire quantity; this at 6 per cent. is .00008 and at 3 per cent. is .00004. 5 days on 5 per cent. (unpaid) = $\frac{1}{4}$ day on the entire quantity; this at 6 per cent. is .00004 and at 3 per cent. is .00002. (*b*) When the gold required for shipment must be withdrawn from the assay office or government bank 1 day in advance of the sailing of the steamer, it must be paid for at the same time, entailing the loss of interest for 1 day. When also, at destination, the delivery of the gold to the assay office or government bank and the first returns for it are received by the banker 1 day late, there is a loss of interest for 1 day. Interest for 1 day on $1 at 6 per cent. is .0001644. (*c*) When the shipment is a special one (importation) as distinguished from a normal one. The importing banker in this case pays for the gold abroad before its shipment, and interest during transit figures in the cost. Interest during transit, however, does not figure in the actual cost of shipments made in the normal settlement or adjustment of international balances. Such shipments merely take the place of bills of exchange, when, owing to different causes, the rates for bills of exchange exceed the total cost of a shipment of gold. Interest is generally figured at the call money rate.

39. Tables XIV and XV give, in decimals, the *approximate* cost of shipments between New York and London, including necessary expenses and possible allowances, and may be used as a guide.

40. Comparison.—A comparison of the parity of the actual cost with the rates of exchange direct and arbitrated, will indicate whether gold may be exported profitably or whether it may be imported profitably.

To find the actual cost, (1) multiply the parity of the price of the gold by the expenses of shipment (see Tables XIV

TABLE XIV

EXPORTS

Expenses and Allowances	Bars	Eagles
Freight $\frac{1}{8}$%	.00125	.00125
Insurance $\frac{1}{2}$‰ (less 10%)	.00050	.00050
Packing and cartage $\frac{1}{10}$‰, domestic and foreign	.00010	.00010
Assay New York	.00040	
Assay abroad	.00020	
Difference in assay .900 to .899$\frac{1}{2}$		Figured in price
Loss in weight $\frac{1}{2}$‰ (abrasion)		.00050 high
Interest delay in returns at 3%	.00002	
Interest 2 days {1 day at 6%, 1 day at 3%}	.00025	.00025
	.00272	.00260

TABLE XV

IMPORTS

Expenses and Allowances	Bars	Eagles	Sovereigns
Freight $\frac{5}{32}$%	.00157	.00157	.00157
Insurance	.00050	.00050	.00050
Packing and cartage	.00010	.00010	.00010
Assay New York (melt)	.00003		.00003
Difference in assay	.00010		.00010
Loss in weight (abrasion)		New York receives face value	.00050
Interest delay in returns	.00004	1 day	.00004
Interest 2 days {1 day at 3%, 1 day at 6%}	.00025	.00018	.00018
	.00259	.00235	.00302

and XV); (2) if it is an export, add the result to the parity of the price; (3) if it is an import, subtract the result from the parity of the price.

NOTE.—If the parity of the price is stated in a foreign currency, then the operations 2 and 3 are reversed, for the reasons explained under rates of exchange.

EXAMPLE.—(*a*) *Export to London:* The parity of the London buying price for bar gold, if quoted at 77s. 9d. = 4.8743875

The expenses 4.8743875 × .00272 = .0132583 *add*

Parity of the actual cost = 4.8876458

(*b*) *Import from London:* The parity of the London selling price for bar gold, if quoted at 77s. $10\frac{1}{2}$d. = 4.8665635

The expenses 4.8665635 × .00259 = .0126044 *subtract*

Parity of the actual cost, interest omitted = 4.8539591

MONEY AND CURRENCY

ECONOMICS OF EXCHANGE

DEFINITIONS

Money and Credit.—Under modern conditions, .nges are mediated by money or by its representative, :. **Money** is that valuable good which all people in a ry are willing to accept in payment for goods or ser- . **Credit** is a promise to deliver money at a future time. xchange effected by credit is one in which the payment oney is simply deferred.

Kinds of Credit.—There are two kinds of credit: **redit of general acceptability**, such as greenbacks ational bank notes, which people will accept as willingly .ey would gold. Credit of this kind is popularly and nonly called money, but in a strictly scientific sense it ly credit; economists call it *credit money*, *representative y*, or *fiduciary money*. (2) **Credit of limited accept- ty**, which includes promissory notes, checks, bills of ange, and all credit instruments that will be accepted by a limited number of people.

Standard money, that is, the real thing having e, is so called in order to distinguish it from representa- or credit, money; thus, gold in the United States is nonly spoken of as the standard. All other kinds of lled money are merely credit representatives of gold.

4. Currency, or Cash.—**Currency** is a convenient and popular term embracing not only money, but also all forms of credit having general acceptability. Currency includes not only gold, but United States notes, bank notes, silver dollars, and small coins. The currency of a country embraces both its money and fiduciary money. **Cash** is practically synonymous with currency.

5. General Terms.—**Utility** is the power of a good to satisfy a want. A thing must not necessarily be useful in order to possess utility in the economic sense. **Value** means purchasing power; nothing has value unless it has utility and unless there is a demand for it greater than the supply. **Price** is the amount of money for which a thing will exchange; it is the value of a thing in terms of money. **Commodity** in the economic sense is applied to such things as possess utility. **Good** is a synonym of commodity. By **legal tender** is meant any instrument of exchange that the law compels creditors to accept. **Lawful money** is such as the National Bank Act requires the banks of the United States to keep in their reserves; it includes gold and all kinds of fiduciary money except bank notes. **Barter** is an exchange of goods without the use of money or credit.

FUNCTIONS OF MONEY

6. Money as the Standard of Value.—The primary and fundamental utility of money is found in its service as a medium of exchange. As money is the measure by which the prices of goods are compared, it is called the **standard of value**; and as money is a variable standard, the use of it enables the values of goods to be compared only at a given time. There can never be a rise or fall in the value of all commodities at the same time, for if the values of some rise, the values of others must decline. All prices, however, may rise or fall, for the value of money may change. It is price that enables the values of goods to be compared. Strictly speaking, money has no price. To say

that the price of a dollar is a dollar would be absurd. Nevertheless, people think of the price of gold, which is money in the United States, as being $20.67 per ounce, for the government coins an ounce of pure gold into that amount of money. It is more accurate to call $20.67 the *mint price* of an ounce of gold.

7. Money as a Store of Value.—Owing to the fact that banks keep reserves on hand, money is commonly said to serve as a **store of value**. On analysis, this function of money is found to grow out of its use as a medium of exchange. Men do not hoard money simply for the pleasure derived from so doing. They keep on hand only so much as will satisfy their wants in the present or in the near future. Any surplus is deposited in the banks at interest. In the same way, banks, which deal in promises to pay money, must keep on hand enough to redeem these promises, and anything in excess is invested. Money never lies idle either with an individual or with a bank, but always seeks employment.

8. Standard of Deferred Payments.—Money is called **the standard of deferred payments**, because men in making long contracts usually specify that payments shall be made with money of the present weight and standard.

9. Value of Money.—The **value of money** is shown by fluctuations in the prices of commodities. If the prices of all commodities are rising, then it is known that the value of money has declined; if prices are falling, then the value of money has increased. The value of money, like the value of everything else, is subject to the law of demand and supply. An increasing demand for money tends to raise its value and to cause prices to fall; an increasing supply tends to do the opposite.

10. Demand for Money.—By **demand for money** is meant the general need or desire for it. This demand is definite and limited like the demand for any other commodity; it depends on the number of exchanges of goods or

services that people wish to make. If they do not wish to buy anything, clearly there is no demand for money. Goods on the market are made to be sold for money, but there is no effective demand for money unless people are willing to buy. It is the amount of goods sold, not the amount offered, that fixes the demand. Money should not be confused with *wealth*. Because money may readily be exchanged for any kind of goods desired, people think of wealth in terms of dollars, and the misconception arises that money has an intrinsic value, whereas it is not money itself that people want, but the things for which it may be exchanged. The demand for money is created by those people who have wealth or services that they wish to exchange for it. The mercantile policy, which was founded on the theory that a nation's wealth is measured by the amount of its money, caused the different countries to export as much goods as possible and place high tariffs on imports.

11. Supply of Money.—By **supply of money** is meant the number of money units (for example, dollars in the United States) that are available for use as a medium of exchange. The supply of money always tends to equal the demand. In other words, strictly speaking, a country always has enough money to mediate all its exchanges. For example, assume that a country has a fixed money supply of $100,000,000 and that the demand for money on account of increasing population and production of wealth is increasing 10 per cent. per annum. The necessary supply of money would always be there, for the value of each dollar would steadily increase with the demand. Theoretically, the value of a dollar would double in 10 years and prices would decline 50 per cent. Prices depend on two things: on the value of the commodity itself, and on the value of money. For example, anything that lowers the value of lumber will also lower its price. At the same time, anything that increases the value of money will lower the price of lumber, for the people will expect more in return for their money.

12. When the supply of money is regulated by natural conditions, as is the case when metals like gold and silver are freely coined, the money may be called a *natural*, or *commodity*, *money*, for the value of the money unit will coincide with that of the material out of which it is made. In most countries, this is the kind of money now in use. When the supply of money is regulated artificially, as is the case with inconvertible paper money, such money is commonly called *fiat money*. The greenbacks in use during the Civil War were fiat money. On their face, they were promises to pay gold or silver coin, but as the government did not redeem them, they depreciated and became the real, or standard, money of the North, expelling gold and silver.

CREDIT

13. Credit in its relation to money is simply a promise to pay. When written or printed, the paper is called a *credit instrument*. Besides being the medium of exchange, credit is also useful in transferring capital. By **capital** is meant all those things which are used in the production of wealth; namely, raw materials, machinery and tools, and foodstuffs. If these things could not be transferred by means of credit, and if their owners were not entrepreneurs (persons that are willing to take the risk of conducting enterprises), they would lie idle; and this would be a great economic waste. Although credit itself is not a creator of wealth, indirectly it leads to this end, for it places capital where it can be used to the greatest advantage.

14. Basis of Credit.—Faith is the cornerstone on which credit rests. No man wishes to lend money to another unless he is reasonably certain of the integrity and business ability of that man. Hence, credit is based on confidence in character as well as confidence in business ability. Sometimes credit rests on something more tangible than either of these, as a mortgage on property; but this is no reason for saying that all the credit of a country depends on the amount

of goods in it. Credit is dependent on this sometimes, but more often on the faith of the lender in the borrower's ability to produce wealth.

15. Credit as a Representative of Money.—Credit is a representative of money. Every credit transaction creates a contract to pay money, which can only be discharged by the delivery of money or of an acceptable promise to pay money. If, for example, the least doubt existed as to the ability of the United States to keep up its credit, that is, redeem its promises to pay in gold, the value of its credit would gradually disappear, no matter how rich it might be in other forms of wealth. Credit has value only as a representative of money, and in no sense can it serve as a standard of value.

16. Credit of General Acceptability.—Credit of **general acceptability**, popularly called *money*, should possess four qualities: (1) It should be issued by a promisor in whom there is absolute confidence; (2) it should be issued in convenient denominations; (3) it should be easily recognizable; and (4) it should be difficult to counterfeit. The two most common forms of this kind of credit are bank notes and government fiduciary money. In the United States, for example, the following kinds of so-called money are really credit of general acceptability: National bank notes, silver dollars and certificates, gold certificates, greenbacks, subsidiary silver (that is 50-, 25-, and 10-cent pieces), nickels, and cents.

17. Credit of Limited Acceptability.—Credit of **limited acceptability** includes instruments that are acceptable, not to the general public, but to a certain few interested in the particular transaction that gives rise to the issuance of the credit instrument. Promissory notes, bills of exchange, various forms of bank credits, and book accounts may properly be classed as credit instruments of limited acceptability. Their chief purpose is to render capital easily transferable rather than to serve as a medium of exchange.

18. Deposit Currency.—A man wishing to secure a deposit account in a bank may give actual money to the bank, or credit instruments that he has received from others, or his own promissory note. The amount of actual cash deposited in the banks of New York amounts to less than 5 per cent. of the total receipts. A **check** is a depositor's order on a bank to pay out a certain sum of money to a certain individual, firm, or corporation. A **bank draft** is an order of one bank on another to pay money to an individual, firm, or corporation. Checks and drafts, being based on the bank deposits, are known as **deposit currency.** They save to a great extent the counting and handling of money.

19. Clearing House.—The **clearing house,** an institution supported by the banks of a city, helps to do away with the actual handling of money. Each bank in the course of a day's business receives a large number of checks and drafts on other banks of the same city. These are sent each morning to the clearing house. If their sum exceeds the amount of all the checks and drafts that other banks hold against it, then this bank has a net balance in its favor and is called a *creditor bank* for the day. If the claims of this bank are less than the amount of claims held against it by the other banks, then it is called a *debtor bank*, and must send to the clearing house a sum of money or a check on a designated bank with which the clearing house has a deposit account sufficient to cover the balance.

20. Book Account.—The form of credit that is probably the means of effecting the greatest number of exchanges is the **book account,** where the amount is charged and later paid by check or by draft. The seller does not receive payment at the time of the exchange, but records it in a book. Postal, express, and telegraph money orders are useful credit instruments of limited acceptability.

21. Bank Reserve.—The **reserve** of a bank is the cash it keeps on hand for use in the payment of claims against it. Bankers have learned by experience that this reserve need not equal the total of possible claims. For

example, the manager of a bank with deposits amounting to $500,000 may find that $100,000 in money is an adequate reserve. Checks amounting to more than $100,000 may be drawn by the depositors, but the bank is not called on to cash all of them. Some checks are deposited by the payees, while others are offset at the clearing house by checks on other banks deposited in the first bank by regular customers. Thus, the same dollar in a banking reserve may mediate several transactions at the same time, and it becomes important to distinguish between the use of currency as a banking reserve and as a hand-to-hand medium of exchange.

22. Usefulness of Credit.—Just as the use of money as compared with barter diminishes the difficulties of trade, so the use of credit facilitates operations as compared with a situation in which money alone is used. The use of credit in any country tends to increase whenever anything occurs to strengthen the confidence on which it rests. In times of lessening confidence, there is increasing need of credit money to do the work that no longer can be done by other forms of credit. A good credit system is one that provides for an automatic increase or decrease in the volume of credit whenever demanded by business conditions. In the United States, checks, drafts, promissory notes, and book accounts may be issued and employed to any extent, but freedom of issue is greatly restricted in the case of credit money.

MONEY DEMAND AND SUPPLY

23. Conditions Governing Demand for Money.—As the demand for money is the need for it for use as a medium of exchange and as a store of value, anything affecting the volume of exchanges or the need for money as a store of value will change the demand for money, and so tend to change its value and cause the general level of prices to rise or fall. It is important to consider three conditions: (1) The use of credit; (2) the rapidity of the circulation of money; and (3) the total volume of exchanges.

4. Use of Credit.—The **use of credit** lessens the and for money, lowers its value, and thereby causes prices. If a sudden restriction were put on credit, would be forced to carry cash to meet their obligations. ry one would be clamoring for ready money with which ake purchases, the value of money would increase, and, e supply were not at the same time increased, the gen- level of prices would fall; possibly a panic would follow. s, credit lessens the demand for money for use as a ium of exchange; it also lessens the demand for money a store of value, for the use of credit in the form of cks, notes, or drafts reduces the amount of currency that n need on hand, in pocketbooks, and in cash drawers.

t is important to remember that credit, though it may in arge degree do away with the use of money, is neverthe- s based on money, for it is a promise to pay money. ough a person may obtain money by giving a promissory te and pledging his property as security, nevertheless it is ney that he must pay back, and his property would not be en as security if it were thought that the sum of money in estion could not be readily realized by the sale of the prop- y. A given sum of money, by serving as a basis for dit, may give rise to a volume of deposit currency several es greater in amount, and thus it may be correctly said t the use of credit multiplies the efficiency of money as a dium of exchange. Credit does not increase the supply money, but by increasing its efficiency, it lessens the need money and increases the importance of each dollar of ney in the country.

25. Rapidity of Money Circulation.—The more rap- y money circulates, the less will be the demand for it as a re of value; and hence its value will be less; for, where same dollar is used for a number of exchanges, it is evi- nt that a less number of dollars will be required than ere each dollar can be used but once. Hence, the demand money decreases in proportion to the increase in the pidity of the circulation.

26. Total Volume of Exchanges.—The demand for money tends to vary directly with the total volume of exchanges. The **volume of exchanges** in any country depends on the number of people, on their productive capacity, on the organization of business, and on the extent to which the division of labor has been carried. The demand for money therefore tends to vary whenever changes take place in any of these factors. Improvements in business organization, which reduce the number of times a commodity is bought and sold in its journey from producer to final consumer, thereby dispensing with the necessity of a middleman, reduce the total volume of exchanges and so tend to lessen the need of money. On the other hand, division of labor, which is a feature of modern industrial evolution, has a tendency to increase the need for a medium of exchange. Primitive man manufactured his own clothing, furnished his own food, and made few exchanges. The resident, even of a mere farming district, of the present day gets most of the comforts and necessaries of life by exchange.

27. Supply of Money.—When a commodity like gold or silver is used as money, free coinage being permitted, the supply of money in the long run depends on the cost of production. Capital and labor gravitate toward the industry that produces the largest profits. Where extraordinary profit is yielded, a large supply of capital and labor will increase the supply of the commodity selling at such a price, and the value, because of this increase, will be forced downwards to the cost of production. If the price falls below the actual cost of producing the article, producers will limit the production, the supply will be reduced, and the price will rise. The only check on a large increase in the supply of gold is the difficulty or cost attending its production. If the value of gold increases, it may become profitable to work the less fruitful mines and thus increase the supply. If the value of gold falls, a number of mines that do not yield sufficient gold to give profit when gold is at this low figure will be abandoned and the output of gold will decline. These changes

in the supply of gold will tend to keep it at a value that will yield the gold miner only the average rate of profit.

28. When gold or any other commodity is freely used as money, the supply of money in a country is automatically regulated, so as to keep the value of that money practically the same in all countries of the world where the same standard is used. If the United States has a larger supply of gold than it needs, the value of money will go down and prices will rise. People will buy abroad where things are cheaper, and gold will be exported to pay for such purchases. The supply of gold here will thus be diminished, and the value of money will rise and prices will go down.

29. The supply of fiat money depends on the will of the government issuing it. It should be noted that the supply of money value in a country cannot be increased by an arbitrary increase of supply of money units. There will be merely an advance of prices; in other words, a depreciation of the money unit.

EXCHANGE

DOMESTIC EXCHANGE

30. The payment of debts between different communities in a country is accomplished through the agency of money or credit. Credit is the usual method, unless the purchases exceed the sales, when the excess is paid for in currency. Every bank in the United States has funds on deposit in one or more banks in other communities, and thus is able to sell to its customers drafts calling for payment of money in other cities. The medium most employed for the payment of debts between different communities is New York exchange; that is, a draft, check, or other credit instrument payable in New York City.

31. Sometimes, a bank receives a call for more New York exchange than it can sell and is therefore forced to charge a small premium for New York exchange. The

premium may equal the cost of shipping currency to New York. The cost of shipment depends on express charges, insurance, and loss of interest. If a bank in Chicago finds that its New York balance is running low on account of the demand by its customers for New York drafts, it endeavors to buy exchange from other banks in Chicago, and will pay them a premium for this exchange. In no case, however, will the bank pay more than 50 cents on $1,000, because it can ship the currency itself for this sum. Competition between buyers and sellers fixes the premium. Often the supply of New York exchange is so great that it is sold by one bank to another at a discount.

32. The debts and credits of a community on account of business transactions always tend to be equal, so that no currency flows either in or out except when there is either deficiency or excess. Should the people of Chicago increase their purchases from the East to a very great degree, there would be an increased demand for New York exchange, followed by a shipment of currency to New York. This loss of currency in Chicago would tend to raise the rate of interest and to lower the prices of commodities, especially those commodities which are the subject of speculation, as wheat, stocks, corn, and pork. Chicago would then become a good place in which to lend money and to buy commodities. In other words, the value of money would rise in Chicago; people in other parts of the country would buy there and pay with New York exchange. Thus the outward flow of currency would be checked.

FOREIGN EXCHANGE

33. With respect to the trade of the world, London occupies a position similar to that occupied by New York with respect to the trade of the United States. Banks all over the world have credit balances in London banks. These balances are not built up by shipments of gold, but by the remittance of checks, drafts, etc. that banks receive from customers that have shipped goods to London.

34. London Drafts.—Drafts on London frequently originate in commercial transactions in which London is not concerned. An exporter of tea in China, though his tea has been shipped to Paris, may be paid by a draft on London instead of by a draft on Paris. For this reason, London exchange, or *sterling exchange* as it is commonly called, comes nearest to being what might be called the world's medium of exchange. Exporters to Great Britain usually "draw" on London for payment, that is, they write a draft on their British customer and sell the draft to a local bank, which forwards the draft to its correspondent in London for collection.

35. Foreign Exchange Terms.—Bills payable within 10 days are called **short bills;** those running for a longer period are termed **long bills. Cable exchange** is a name given in New York to drafts on London sold by banks and paid the same day in London in compliance with a cablegram. A long bill sells for less than a sight bill on account of the deduction of interest.

36. Gold Import and Export.—If the trade between New York and other parts of the world were always settled by sterling bills or bankers' drafts on London, and if the exports from the United States always equaled the imports, sterling bills of exchange would always be at par in New York City. A sovereign would always be worth $4.86⅔. This state of affairs seldom exists. When the United States imports more than it exports, the demand for London drafts runs ahead of the supply, and a man with a debt due in London will pay $4.88 for a draft rather than ship gold, which would cost about 2 cents a sovereign. In the opposite case, bankers will find their credit balances in London increasing. Bankers usually desire to have their funds at home and not in foreign cities, but as it costs 2 cents a sovereign to import gold, they can better afford to sell drafts on London at less than par. Therefore, brokers, as a result of competition among themselves, sometimes lower the price of sight sterling to $4.846. The expenses of shipping gold

are freight, insurance, and loss of interest. The loss of interest always falls on the banker that orders the shipment, not necessarily the one that makes the shipment. If the price of sterling falls below $4.846 in New York, it soon becomes profitable for some banker to buy it and import gold. If the demand for sterling exceeds the supply, bankers will be able to sell drafts on London above par, and if the price rises above $4.886, it will become profitable for some banker to sell sterling at this high rate and export gold to London to cover his drafts.

That point in the price of sterling which makes importation or exportation of gold profitable is called the **gold-import point** or the **gold-export point**, and it varies with the rate of interest.

36. Supply of and Demand for Sterling Exchange. The supply of and the demand for sterling exchange in New York City is due to the visible and the invisible trade of the country. The *visible trade* includes merchandise and products. The *invisible trade* includes the import and export of debts; namely, (1) the trade in stock-market securities; (2) private investments of capital; and (3) bank investments. A sale of stock-market securities by New York to London gives rise to sterling exchange just as a sale of wheat does.

Suppose that an investor in England wants stock in the Union Pacific Railroad. He does not send to New York, but he asks his London broker for the stock. The London broker will try to buy the stock on the London exchange. But if no holder is willing to sell, the broker will be unable to buy unless he offers on the floor of the London stock exchange a price that would make it profitable for some dealer to cable an order to New York for the purchase of the stock there. There is an automatic movement of securities toward the markets paying highest prices, and this has a great effect on foreign-exchange quotations. When a person in England makes a purchase in the United States, he does not send money in payment; he either remits a

check on London or permits his American creditor to draw on him. That increases the supply of sterling exchange in the United States and tends to lower the price. The opposite is true when an investor in America makes purchases in Europe. If the rate of interest is lower in London than in New York, London bankers, wishing to take advantage of the higher rate in New York, will authorize their New York correspondents to make drafts on them; this causes an increase in the supply of sterling exchange in New York.

38. Effect of Foreign Exchange.—As a result of the operations of men in different countries, each acting independently in the pursuit of profit, the rates of foreign exchange in each country are so adjusted that the value of gold in all tends to be the same, gold always moving from the country where prices are relatively high toward the countries where prices are relatively low.

THE INDEX NUMBER

39. The level of prices always tends to rise when the supply of money is increased or the demand falls off, while prices tend downwards when the supply is diminished or the demand is increased. However, the changes in the prices of different commodities are not uniform, nor do they follow in regular order. So, if it is desired to ascertain whether the value of money is rising, no information can be gained by examining the price of one or even of several products. A general average of the prices of the principal commodities must be taken. The **index number** is an instrument devised for this purpose. In the calculation of this instrument, several methods are employed, the simplest of which is the following:

Suppose that rice, potatoes, coal, petroleum, and salt are selected, and that it is desired to find out how much the value of money has changed with respect to these during a certain year. Suppose that the prices between January 1 and December 31 have changed as follows: Rice has risen

from 5 to 5½ cents a pound; potatoes have risen from 60 to 90 cents a bushel; coal has risen from \$5 to \$6 a ton; petroleum has fallen from 10 to 9 cents a gallon; and salt has fallen from 2 to 1⅞ cents a pound. In order to eliminate the effect of unit differences, it becomes necessary to take of each commodity the same money's worth—this being done by assuming that 100 cents worth of each article is taken at the beginning—and then calculate the price of that quantity at the end of the period. Rice rose from 5 to 5½ cents a pound, an increase of 10 per cent.; therefore, that which cost \$1 on January 1 would cost \$1.10 on December 31. Potatoes rose 50 per cent., and the amount costing \$1 on January 1 would bring \$1.50 on December 31. Coal rose 20 per cent., and the price of the original \$1 worth would be \$1.20. Petroleum fell 10 per cent., and would therefore cost 90 cents. Salt fell 6¾ per cent., and would therefore cost 93¼ cents. The aggregate price of the stipulated amount of these articles on January 1 was \$5 and on December 31 it was \$5.63¼. There was an increase in the entire price of 63¼ cents, or an average increase of 12.65 per cent. Hence, 112.65 cents will buy on December 31 only as much as 100 cents bought on January 1, and the purchasing power of the 100 cents at the end of the year is only $\frac{100}{112.65}$ part of what it was at the beginning, or 88.77 per cent. Hence, on December 31, \$1 would buy no more than \$.8877 bought on January 1. If, in this way, the prices of all commodities at different times could be averaged, it would be possible to have an index number in which the changes would indicate the changes in the purchasing power of money.

40. Laws Governing the Index Number.—The general law is this: Changes in the index number show directly variations in the general price level; changes in its reciprocal show variations in the value of money. For example, a rise of 12.65 per cent. in the index number would mean a decline of 11.23 per cent. in the purchasing power of money. It would be impossible to construct an index number that would be absolutely correct, for human wants are constantly

changing and articles of great importance during one decade may cease to be consumed at all during the following decade.

In order that an index number may reflect the varying degrees of importance possessed by different commodities, methods of *weighting* it have been devised. For example, if the value of the iron consumed in the world is found to be five times as great as the value of tin consumed, the price of iron may be used five times in the list of prices from which the index number is deduced, and the price of tin only once.

The index number shows the value of money only with respect to goods, not with respect to human labor. If the index number were known, it would be possible to decide whether there had been any real changes in the value of an article by comparing the price changes of the article with contemporaneous changes in the index number. If the index number rose 5 per cent. and the price of the article rose 5 per cent., the conclusion would be that the value of money had fallen and that the real value of the article had remained stationary.

41. Common Index Numbers.—Following are descriptions of index numbers frequently quoted:

The United States Department of Commerce and Labor Index Number, which is published annually in the March Bulletin of Labor. This index number begins with 1890, the base line being the average of prices from 1890 to 1899, and is computed from the average yearly prices of 259 articles.

The Falkner Index Number was prepared for the United State Senate Committee on Finance and Commerce and covers the period from 1840 to 1891.

The London Economist publishes once a month an index number computed from the prices of 39 articles, the base line being the average of prices from 1845 to 1850.

The Sauerbeck Index Number, computed annually by Augustus Sauerbeck and published in the British Journal of the Royal Statistical Society, is based on the prices of

37 articles, the base line being the average of prices from 1867 to 1877.

Two newspapers in the United States, Dun's Review and Bradstreet's, publish monthly tables of prices. These show in a general way the changes in the purchasing power of the dollar.

42. Causes of Changes in Prices.—Changes in the price of a commodity may be brought about in four ways; as by a change (1) in the demand for a commodity; (2) in the supply of the commodity; (3) in the demand for money; and (4) in the supply of money.

43. Suppose there is mined in some of the Western States a supply of gold worth fifty millions of dollars, and that this gold is coined by the government and then deposited by the miners in the banks of the country. The banks will immediately seek borrowers and will probably lower the rate of interest rather than keep any of the gold idle in the vaults. The borrowers will buy goods and labor, so the demand for goods will increase and prices will rise. This will cause a rise in the general price level, indicating a decline in the value of money. High prices here will induce purchases abroad; then will follow export of gold, and, in accordance with the law of automatic distribution of gold, each country will finally get its proportionate share of the new supply, and prices in all gold-standard countries will gradually be raised in the same degree. If fifty millions of dollars are suddenly withdrawn from circulation, a precisely opposite effect will be produced.

44. An increase in the demand for money may result from (1) an increase in the volume of exchange; (2) a contraction of credit; and (3) a lessened rapidity of circulation. The volume of exchanges within a country depends mainly on the number of its people and the quantities of goods produced. If the productive capacity of a community has been doubled, the supply of money having remained stationary and the use of credit not having been introduced, then each dollar will be called on to exchange twice as many

›ds as before, and it will have twice the value it formerly
. In other words, prices will have fallen 50 per cent. A
uction in the cost of one article, due to improvements,
y indirectly affect the prices of other goods whose costs
e not been changed. Suppose the average price of pianos
educed from $300 to $150. If the reduction does not lead
twice the former sales, an increased amount of the com-
nity's money will be offered for other articles and their
es will rise, though there has been no change in their cost
production. If the lower price of pianos attracts a large
nber of new buyers and the sales more than double, then
community will have less money to invest in other articles,
that the prices of these will tend to decline.

45. An increase in the use of credit, since it lessens the
emand or need for money by rendering the existing supply
ore efficient, is practically equivalent to an increase of the
oney supply, and therefore tends to cause a rise in prices.

46. Prices do not change uniformly. When there is an
crease in the supply of money or in the use of credit, only
ose goods which come in contact with the new money or
edit are affected in price, for those are the goods for which
ere is an increased demand. Suppose the banks suddenly
ceive a very large sum of gold. Having a large fund on
nd, they will reduce the rate of interest to encourage bor-
wers. They will probably at first increase their call loans
speculators in stocks, wheat, corn, cotton, and other prod-
e; the demand for these articles will increase and their
ices will rise. The general public will borrow and invest
railroads and industrial plants. Merchants and manufac-
rers will extend their operations with the aid of the bor-
wed capital. The materials they use (steel, iron, lumber,
c.) will rise in price because of the increased demand.
creased demand for labor will insure higher wages. The
mmunity at large will have more money to spend on
cessaries and comforts, and the retail prices of these
ticles will therefore rise.

RATE OF INTEREST

47. The rate of interest, according to economists, is the percentage that the borrower pays the lender for the use of his capital. As has already been stated, capital includes all those goods which are used in the production of new wealth; namely, raw materials, machinery and tools, and foodstuffs. To the business man, capital means all the money and credit that may be used for business purposes; and the rate of interest is the percentage of money that the borrower pays the lender for the use of his money. The rate of interest is always figured in money. For this reason, it may at first appear that the rate of interest is chiefly dependent on the supply of money, but closer examination shows that it is dependent on the demand and supply of *loanable capital*. By this term is meant the amount of goods produced by people in excess of their own needs. The demand for capital is not the same with different borrowers. One man may be willing to pay as much as 10 per cent., where another could probably afford only 4 per cent. If the rate of interest is lowered, more people will borrow money; if raised, fewer will borrow. On the other hand, with a rising rate of interest, it is found that more people—who otherwise would either let their capital stand idle or else use it themselves—are anxious to avail themselves of the high rate. These two antagonistic forces pulling against each other will cause the rate of interest to move toward that figure which tends to make the demand and supply equal.

48. Loanable Funds.—A bank's **loanable funds** represent the amount of loanable capital in a country. All lending power is the result of industry. Banks could not exist among a people that, though possessing an abundance of money, expend it on the satisfaction of their immediate wants. A bank's lending power will therefore vary with the amount of savings of its depositors. All these savings have their origin in goods for which the owner has no use. If a farmer, for example, finds that he has 10 tons of hay for which

e has no use, he will sell the hay and deposit the proceeds ı the bank. Such a deposit, representing the surplus hay, ecomes part of the loanable funds. All the goods not 'anted by their owners constitute a community's loanable apital, while the money and credit for which they are xchanged constitute its loanable fund. Thus, **capital fund** ıay be defined as that amount of money and credit which at ny time is available for business purposes.

49. Consumers' Goods and Capital Goods.—All ıose goods in a country which are used, not for the pro-uction of new wealth, but for immediate consumption, are **onsumers' goods.** The capital fund of a country is btained from the sale of consumers' goods as well as **apital goods.** A manufacturer of shoes, which are con-umers' goods, may deposit his surplus earnings in a bank, ıus swelling the capital fund. In spite of this, the amount f capital goods has a direct bearing on the capital fund. An ıcrease in one causes a corresponding increase in the other. uppose the spirit of economy suddenly descends on all the ıembers of a community. The desire to save will lead ach person to deposit as much of his money as he can in bank, thereby increasing the capital fund. Fewer con-umers' goods will be bought, for the people will be con-ent to do without luxuries in order to buy more capital oods. The demand for capital goods being large, the rices of them will rise. At the same time, the demand or consumers' goods being small, their prices will fall. 'roducers would begin to manufacture more capital goods nd fewer consumers' goods. Thus, it is seen that any sud-en increase in the capital fund will cause a corresponding ıcrease in the amount of capital goods. From this it may e concluded that the rate of interest charged by banks for he use of their capital fund corresponds in the long run with he rate of interest on capital.

50. Demand for Capital.—A **demand for capital** is ıot a demand for money. The latter, as explained before, omes from people that wish to sell and varies with the

number of exchanges. The demand for capital depends on the people that wish to get possession of raw material, etc. The demand for money affects price, while the demand for capital affects interest. Suppose, in a certain community, the rate of interest is 5 per cent. Let some people begin to build a railroad and borrow money for this purpose; the demand for capital being increased, the rate of interest will rise, say, to 6 per cent., but the demand for money has not been increased, as there has been no increase in the amount of the exchanges made.

Although a demand for capital is not a demand for money, it often does affect the prices of commodities. An increase in the demand for capital sometimes brings about a rise in prices. For instance, in the foregoing illustration, the price of iron and steel will go up because of the increased demand for these articles. An increase in the demand for capital, inasmuch as it serves to strengthen confidence in borrowers, may even lessen the demand for money by increasing the use of credit.

51. Effect of Temporary Increase or Decrease in Money Supply.—A temporary increase in the supply of money tends to lower the rate of interest temporarily. If $100,000,000 were suddenly added to the money supply of the United States, the lending power of the banks would be increased without any corresponding increase in the demand for loanable funds. As already mentioned, the banks would not wish to have this money lying idle on their hands, therefore they would lower the interest rate in order to get the $100,000,000 into circulation. Now, however, it is found that more money is needed to buy goods than before, for the value of money has decreased and the prices of commodities advanced, so that the same amount of business is transacted with a larger amount of money. The banks have more money than before and can therefore lend out more; but this increase in money represents no increase in value. A borrower now can get $1,100 as easily as he could get $1,000 before. Hence, he will pay the same rate of interest,

so the reduction in the interest rate was only temporary. A temporary decrease in the money supply has an effect just the opposite of that above described.

52. Effect of Steady Increase in Money Supply.—A steady increase in the money supply will now be considered. At first, as has been shown, the rate of interest will fall and prices will rise. Producers will consider that they have increased their profits because they are getting in more money. The demand for capital will increase; this will cause the rate of interest to rise. There will be a great stimulus to all kinds of business activity. If this continues long enough, there will be a tendency to speculation. Soon a climax will be reached, and the reaction will start in. Some bank will find that it has increased its loans and demand obligations beyond the line of safety. Other banks may be involved in its downfall. As soon as a suspicion of these conditions assails the public, the disastrous effects become widespread and may culminate in a panic. The credit contracts and prices fall. During the panic the rate of interest rises. There is a great demand for loanable funds for the purpose of paying debts. Then follows a period of depression and the rate of interest again declines.

53. Failure of Money Supply to Increase.—When the money supply fails to increase as fast as the demand, although at first the rate of interest goes up, in the long run it tends to decline. At first there is a scarcity of loanable funds, and the banks get a high interest rate. This will force many business men to lessen their transactions, and the prices of goods will decline. There is a general depression of business activity. The demand for loanable funds decreases, and the banks have to lower their interest rate in order to get people to borrow. The decline of profits and lessening of the demand may wrongfully be attributed to overproduction; but the real cause lies in the weakening of the demand for capital caused by the fall of prices. During periods of depression, banks have on hand a large supply of money. This may raise the question "How can money be

[illegible] A large bank [illegible] money. But a large [illegible] caused by [illegible] the banks [illegible] money has no effect [illegible] being used as a medium of [illegible]

54. Effect of Changes in Money Supply.—The [illegible] during the 19th century [illegible] changes in the money supply. [illegible] From [illegible] steadily decreased. During these years [illegible] tended to decline [illegible] and 1847 when [illegible] the average rate was [illegible] the American [illegible] supply [illegible] During [illegible]

[illegible]

APPRECIATING AND DEPRECIATING STANDARDS

55. It should be borne in mind that price gives the value of a commodity in gold (assuming gold to be the standard), and also the value of gold in a commodity. Two sets of supply-and-demand relations, therefore, are always involved in the price of a single commodity. The misunderstanding of this fact has led to some confused thinking and writing in criticism of the law of demand and supply as applied to money, it being held that the law applies only to commodities, and that prices really depend on the demand-and-supply relations, or cost of production, of commodities exclusively.

56. Level of Prices.—The height of the **level of prices** is determined by the value of purchasing power of the monetary unit. In the United States, the unit of prices is the dollar, containing 23.22 grains of pure gold. The dollar is popularly called the *unit of value*. That phrase is confusing. The dollar is merely the *price unit*. It is of no consequence whether the level of prices is high or low. To discuss the comparative advantages of high prices and low prices would be like discussing the advantages of the long German mile over the short English mile. The altitude of prices has no more connection with business than the length of the standard mile has with the distance between Philadelphia and New York.

It is important, however, that the level of prices when once fixed should not vary suddenly or greatly. Slight fluctuations in prices, like the ebb and flow of the ocean tides, may be harmless; but a sudden and considerable rise or fall of prices upsets all business calculations and tends to cause panic through the destruction of that confidence which is the basis of credit. One of the strongest arguments in favor of the use of gold as a measure of value is the fact that its value is not subject to great or sudden variations, since the demand for gold depends on world-wide conditions and its supply on natural conditions.

57. Effects of Rising and Falling Prices.—From the foregoing, it will be seen that the question of higher or lower prices is not the question of high or low prices; this is extremely important. When the purchasing power of money increases with more or less steadiness, that is, prices are tending downwards, it is called an **appreciating standard**; when its purchasing power is decreasing, that is, prices are tending upwards, it is called a **depreciating standard.** Economists have usually held that the standard should be stable, that is, that it should neither appreciate nor depreciate, the general level of prices not changing; and most economists have maintained that a gradual depreciation of the standard (if not the result of conscious design, as is possible with paper money) is less hurtful to business than its gradual appreciation, on the ground that business men more readily adjust their affairs to rising than to falling prices, being stimulated by the one and depressed by the other.

58. Two Causes of Appreciation.—A rise or fall of prices may be the effect of either of two causes—one acting on the demand for money, and the other acting on the supply. Falling prices, for instance, may be due to an increasing demand for money on account of increase of production and of exchanges, the supply of money either remaining stationary or not increasing at equal pace with the demand. Or, the cause of falling prices may be a positive diminution of the available supply of money, the demand for money having undergone no change. A lessening of the money supply will depress not only prices, but business enterprises as well, for the debtor's burden will increase, while his ability to bear it will not. The depression of prices in the first 40 years of the 19th century was of such a character.

A general fall of prices, no matter what the cause, exerts an evil influence on trade and production. It discourages production, for the producer is forced to sell at a level of prices lower than that on which all his calculations and expenses were based. It appears to increase the burden of long-time mortgages, and often actually does increase it.

In either event, the psychological effect on the mortgagor is bad.

59. Stability of Value.—One of the most desirable qualities of money is **stability of value.** Economists are not agreed as to what should be the test of stability. A dollar should always buy the same quantity of commodities. In other words, the index number should not vary. A dollar should always buy the same amount of human effort; then, as prices fall as a result of increased production, the real reward of labor will increase. A dollar should always buy the same amount of utility. In other words, it should always afford the same amount of satisfaction or pleasure to the purchaser.

COMMODITY MONEY

GOLD AND SILVER

60. Natural, or **commodity, money** is money made out of material, the free use of which is permitted as money. The value of the material depends on two things: its use as a commodity, and its use as money. Gold and silver coins are at present the only kinds of natural money in the civilized world. Silver is not natural money in the United States, its free coinage not being permitted; it is credit money.

61. By **free coinage** is meant that any person possessing a metal that is used for money may take it to the government and have it minted into money. In the United States and England, this is not only permitted with respect to gold, but the minting is done without charge, except for the alloy and for the conversion of the metal into bullion. Coinage under these conditions is not only free, but gratuitous.

62. When a metal has been purified and mixed with alloy it is known as **bullion.** The charge for this process is called **brassage.** When an additional charge is imposed,

as in France and most other countries where free coinage is permitted, it is called **seigniorage.** There is no seigniorage on the coinage of gold in England and the United States. When free and gratuitous (that is, without seigniorage) coinage is permitted, the value of an ounce of bullion tends to equal that of an ounce of coin, thus making the metal itself practically money. If the bullion in a coin were worth more than the coin as money, people would melt the coins.

63. Effects of Free Coinage of Gold.—Gold is needed for two purposes: for money, and for use in the arts. Hence, the value of money in the United States is governed by the demand for and supply of gold coin, and also by the demand for and supply of gold bullion in the country.

Where free coinage is permitted, an increase in the supply of gold will bring about an increase in the supply of money and cause the value of both to decline. A decrease in the supply would have the opposite effect. Free coinage gives to gold the same uses as money. In the United States, banks count gold bars in their reserves.

64. Effects of Seigniorage.—If seigniorage is charged, the value of the coin will exceed that of the bullion by the amount of the seigniorage. France illustrates the effects of seigniorage. The government charges 7 francs for coining 1 kilogram of pure gold into 3,100 francs. Gold coins in France, therefore, are worth more than their weight in gold, and hence are never melted or exported. The chief objection to seigniorage is the opportunity it offers to counterfeiters; its chief advantage lies in the fact that a given quantity of metal will make a larger amount of coin.

65. Gresham's Law.—Through constant usage, coins are likely to lose a small percentage of the gold contained in them and at the same time retain their value as money. In the United States, if gold coins lose more than one-half of 1 per cent. of their weight in 20 years from the date of their coinage, they will be valued according to their weight as bullion. There is a tendency for all commodities to seek that market where their values are the greatest. Gold

follows this tendency. When it is needed for export, the worn coins, being worth just as much here as the new ones but not worth so much abroad, remain here, while the full-weight coins are selected for exportation. Gresham's law is stated as follows: "Whenever a coin is worth more as bullion than as money, it will either be melted for use in the arts or exported as bullion." A popular expression of this law is, "Bad money drives out good."

66. Regulation of the Supply.—The supply of metal money is regulated automatically through the medium of price and the rate of interest. As just stated, gold, like all other commodities, tends toward the market where its value is greatest. This will be wherever prices are lowest. The rate of interest also governs the supply of metal money. When banks in the United States raise their rate of interest, they weaken the price of speculative commodities. This increases exports and diminishes imports of goods and securities; it also increases the earning power of money as a basis of credit and causes bankers to convert their foreign balances into money, while foreign bankers will increase their balances in the place where they get the highest interest rate. Gold will then be imported. This automatic movement of gold tends to keep it evenly distributed among the countries using it as money.

67. Distinction Between Credit and Commodity Money.—*Credit money* coined from metal should not be confused with *commodity money*. In the United States, all metal money except gold is credit money. The term *money* is defined in the laws of a country. In the United States, the dollar consists of 25.8 grains of standard gold (nine-tenths pure gold and one-tenth alloy).

THE PRECIOUS METALS

68. The only important defect of natural money is the lack of stability in its value, which rises and falls with the value of the metal from which it is coined. The production of gold will tend to increase when its value is rising, and to decrease when its value is falling. This truth is easily understood when applied to ordinary commodities, but is obscured in the case of gold by the fact that the so-called "price" of gold in the United States and in Europe does not change. Gold itself is the maker of prices and seems independent of the ordinary laws governing values. If a man receives a certain fixed amount of gold every year, this sum will be worth more to him when the prices of goods are low than when they have risen, because in the former case he would receive more goods in exchange for his gold. The man that owns and works a gold mine is interested in the prices of all goods, because the value of his product depends on the prices of things in general. If prices are high, his mine may not produce enough to pay the increased price for the goods he needs, in which case he may cease operations. If the prices of goods in general become considerably lower, the gold miner will be able to get a larger quantity of goods in exchange for his gold, which means that gold has risen in value. At any time the miner may take an ounce of gold to the mint and receive in return $20.67.

69. Although the value of gold is fixed by the same law that fixes the values of other commodities, its value neve theless is not so subject to sudden changes, for the stock gold in the world is so large that the annual additions be a small proportion to the whole. Owing partly to the dang attendant on mining operations in the middle ages, a partly to the absorption of the precious metals by the chu of that time for decorative purposes, the supply of gold a silver was so diminished that in the 10th century penn were prized almost as dollars are now. The improved pr esses invented during the last quarter of the 19th centu

re believed by experts and special investigators to have onverted gold mining into a stable industry, thus banishing ıe fear of any great scarcity of gold in the future.

70. At the end of the 15th century, the world's supply f precious metals available for use as money was equal to bout $175,000,000. During the 25 years following 1492, ıe annual production from America averaged $250,000, while that of the old-world mines averaged $500,000. The iscovery of the Potosi silver mines about this time, together with the invention of a process for the extraction of silver rom ores, increased the production to $10,000,000 per nnum. During the 18th century, the production of gold ıcreased at a greater rate than that of silver. Between 760 and 1810, the annual production of both metals had mounted to $45,000,000. During the 20 years following, this roduction amounted to only $28,000,000 per annum. Then ıme the discovery of gold in California in 1848, and in ustralia in 1851, which caused an increase during the next years, so that between 1860 and 1870 the average yearly oduction was $125,000,000. Thereafter it declined. During is period the production of silver remained stationary, but ter 1870, while the production of gold was decreasing, it gan to increase, so that during the period from 1880 to 1890 e production of silver averaged $129,000,000 per annum. bout 1890, supplies of gold from South Africa and Alaska, gether with an increase in the production of the mines of alifornia, Colorado, and Australia, caused an increase to 202,000,000 in 1896; $306,000,000 in 1899; $358,000,000 in 904; and $405,000,000 in 1906. During this period the production of silver made little advance.

Prices from 1492 to 1870 reflected the values of both gold nd silver. Spain experienced a rise in prices immediately fter the importation of the precious metals discovered in he new world. In spite of the fact that the exportation of he precious metals from Spain was made a capital offense, hey were nevertheless gradually distributed over Europe. General prices were not affected, however, until about 1570,

after which they rose rapidly until the end of the 17th century, when they appear to have been between 200 and 300 per cent. higher than in 1492. There was no great change in general prices during the 18th century, but during the first half of the 19th century, the average production decreased, causing prices to fall. Between 1850 and 1870, prices rose about 30 per cent., because of the discoveries of gold in California and Australia. When the United States and several European countries adopted the gold standard after 1870, the additional demand for gold increased its value and caused prices to decline, so that in 1896 the price level was 50 per cent. lower than in 1870, thus showing that the purchasing power of an ounce of gold had doubled. Owing to the increased supply of gold from South Africa, prices in 1896, particularly in Europe, began to show an upward tendency. The 19th century furnishes four periods showing distinct movements in prices—falling prices from 1810 to 1850 and from 1870 to 1896, and rising prices from 1850 to 1870 and from 1896 to 1900.

MONOMETALISM AND BIMETALISM

71. Monometalism is a monetary system in which only one metal has the right of free coinage; **bimetalism** means the free coinage of two metals at a fixed ratio. In the United States, a dollar was originally defined as being either 371.25 grains of pure silver or 24.75 grains of pure gold, and in England prior to 1816, when Parliament defined pound sterling as being 113 grains of pure gold, a pound signified a certain amount of gold or a certain other amount of silver. In fact, the world has had a larger experience in the use of the joint standard than in the use of the single, for it was not until after 1870 that the larger nations followed England's lead in discarding the silver standard.

72. Claims of Bimetalists.—Bimetalists argue that the value ratio of gold and silver will not fluctuate materially, for if the value of one should fall, the total mone-

demand would be transferred to it, thereby raising its value, and causing the value of the other metal to decline. In the United States in 1792, the "mint ratio" was as 15 to 1, because the silver dollar was fifteen times as heavy as the gold dollar. If the value of silver had suddenly fallen, so that 15 ounces of silver would have been worth less than 1 ounce of gold, men would naturally have sought to pay their debts in silver. Bimetalists hold that increased demand for silver for this purpose, and the falling off in the demand for gold would have caused the value of silver to rise and that of gold to fall, until the original ratio of 15 to 1 should once more have been established.

73. Bimetalists hold that the free coinage of a metal into money, by introducing a new use for it, will undoubtedly increase the demand for the metal and so raise its value. It cannot be foreseen, however, whether the supply of that metal could ever be so increased that, notwithstanding the increased demand for it as money, its value will continue below the mint ratio. Bimetalists claim, however, that at no time in the past has the supply of either gold or silver increased with such rapidity that either could have taken the place entirely of the other if universal bimetalism had prevailed.

74. It is claimed that the free coinage of silver with gold would yield a more stable standard of value, because it is not probable that both metals would simultaneously rise or fall in value to the same degree. If the discovery of new gold mines should increase the output of gold and tend to lower its value, the money demand, it is claimed, would be transferred from silver to gold, thus increasing the demand for gold and tending to raise its value. There would not, therefore, be so great an increase in prices if the gold supply were increased as there would be under the same conditions if gold alone were used as the standard.

75. If gold-and-silver bimetalism were successfully maintained by a number of countries, it is held that the trade between gold-and-silver countries would increase and that

the expenses and inconveniences at present attending such trade would be greatly reduced. The ratio between gold and silver changes constantly, and if a business man in the United States wishes to sell goods in some country that is on a silver basis, like China, for instance, he must figure on what silver will probably be worth when payment is made for the goods. Capitalists do not care to invest their money in a silver-standard country, because the payments from their investments will be made in silver whose value meanwhile may have greatly declined.

76. Ratio of Gold to Silver in France.—From 1803 to 1873, gold and silver were freely coined in France at a ratio of 15.5 to 1, and the values of both metals fluctuated but little in that country, notwithstanding the great increase in the supply of gold due to the discovery of many new mines.

77. Ratio of Gold to Silver in the United States.—In 1792, the Congress of the United States authorized the free coinage of gold and silver at a ratio of 15 to 1. It was soon discovered, however, that gold was worth more than fifteen times its weight in silver. After 1803, when the French law authorized a coinage on a basis of 15.5 to 1, gold was attracted from the United States to France and to the other countries of Europe where it was worth more. Thus the United States could not keep its new gold money in circulation. In 1834, the coinage law of the United States was changed, making the ratio 16 to 1. Silver possessed a higher money value in France than in the United States, and silver coins were exported to the old world. The attempt of the United States to maintain bimetalism was a failure in both cases; but bimetalists claim that this failure was really due to the strength of bimetalism in France. If the law of the United States, they argue, had provided the same ratio that prevailed in France, bimetalism could have been successfully maintained.

78. Period of Unconscious Bimetalism.—Prior to the 19th century, what might be termed *unconscious bimetalism*

ailed in most countries of the world. However, as imperfect bimetalism; for different countries were ng gold and silver at different ratios, and thus the ons in which the money demand was weakest were in to be stripped of one or the other of these metals.

'. **Decline of Bimetalism.**—It seems to be generagreed that bimetalism has ceased to be a living issue. great increase in the gold supply during the last 10 years even in the opinion of bimetalists, given the world gh money. 'Furthermore, practically all important comial nations have adopted the gold standard.

. **Countries That Have Adopted Gold Monoallism.**—During the 19th century, the leading countries e civilized world adopted gold monometalism: England, Portugal, 1854; Germany, 1871; United States, 1873; Latin Union (France, Belgium, Italy, Greece, Switzer-, 1874; Spain, 1874; Sweden, 1875; Norway, 1875; nark, 1875; and Holland, 1877. Within recent years, old standard has been established in Russia, and practi-. also, in Austria, although paper there is still at a slight unt. In 1893, India's mints were closed to silver, and 99 the gold standard was adopted, the rupee becoming t money exchangeable for gold at the rate of 15 rupees pound sterling.

. **Arguments in Favor of Gold Monometalism.** usual arguments for gold monometalism are: It is as sary to have one standard of value as it is to have one ard of measurement or weight—two standards of value l be as bad as two yardsticks. The experience of the has convinced the leading nations that the single standf gold is the best and most economical, and they have fore adopted it. Of all metals, gold is the best fitted rve as money, on account of its stability of value, its bility, etc. For 300 years or more the nations of pe tried to use both gold and silver jointly as standof value, and failed utterly to maintain their values constant ratio or to keep both metals in concurrent

circulation, endless and most expensive confusion of the coinage systems being the result. Law cannot create value, and therefore the mint ratio established between two metals can have no influence on the market or commercial ratio. As the market ratio varies, the metal that is undervalued in the mint ratio is exported, and the monetary system of the country is seriously disturbed.

FREE COINAGE OF SILVER

82. The adoption of the gold standard by the United States and by the leading countries of Europe between 1870 and 1880 was followed by a period of falling prices. Falkner's Index Number declines from 127 in 1872 to 92 in 1891. This fall of prices was claimed by the friends of silver to be injurious to farmers and other producers of wealth, and its cause was held to be the suspension of the free coinage of silver. The friends of silver continually advocated what they called the "remonetization of silver." In 1877, Congress passed a free-coinage bill, but it was vetoed by President Hayes. The Bland-Allison Act of 1878 and the Sherman Act of 1890 were the products of a compromise between the silver men and the supporters of the gold standard. The panic of 1893 left the industries of the country prostrate, so that the ears of the people were attentive to the arguments and alluring promises of the friends of silver. A great debate followed, which culminated in the political campaign of 1896, the candidate of the silver men being defeated. Since 1897, on account of the great output of gold, prices have been steadily rising, so that the silver question in the United States is no longer a live issue. It is worth while, nevertheless, to review the arguments employed in the agitation for the free coinage of silver in 1896.

83. The advocates of the free coinage of silver in the United States employed all the arguments that were advanced in favor of bimetalism. In weighing their argument, therefore, it was necessary first to consider whether or not

imetalism would probably result from the free coinage of ilver in this country. For bimetalism at 16 to 1 to exist in ıe United States, an ounce of silver must exchange in the ıarkets for $1.29 gold. If it were worth any less, silver 'ould be the exclusive money of the country and prices 'ould be silver prices, for the debtor would always use the ıeapest dollar available.

84. While American experience does not prove the npracticability of bimetalism if adopted at a common ratio y the leading nations of the world, it does prove that this ɔuntry alone has not been able to maintain an independent rbitrary ratio. An appeal to history, therefore, leads to the ɔnclusion that the independent free coinage of silver in the 'nited States would result in a change from the gold to the ilver standard.

An examination of the conditions governing the demand ›r and supply of the precious metals in the world leads to ıe same conclusion. The free coinage of silver would ıdoubtedly immediately bring to bear on silver a strong oney demand, and its value would increase; but at the ·esent level of prices, not more than $1,400,000,000 in silver ›uld be absorbed by this country, for there would be a displacement of barely that amount of gold. The present ılue of silver in gold is about $.65 per ounce. If the nited States should throw all of its gold on the markets : the world and become a bidder for $1,400,000,000 worth : silver, silver would undoubtedly rise in value while gold ould fall. In view, however, of the large output of silver ıring recent years and of the growing demand for gold ıroughout the world for use as money, it is inconceivable ıat the operation when completed would double the gold alue of silver. The friends of silver rely very much on ohn Locke's view, that the demand for money is equivalent ɔ the demand for all other things; that it is infinitely great, nd that would be sufficient to raise the value of silver to ıny ratio that the law may designate. If this were a sound view, no valid objection could be argued against the free

coinage of silver, nor, for that matter, against the unlimited issue of paper money; but the view confuses the actual demand for money with the potential demand.

85. If, as a result of the free coinage of silver, its market value were not raised to the ratio of 16 to 1, the supply of money would of necessity increase in the United States until the purchasing power of a dollar and of 371.25 grains of pure silver would be the same. The advocates of free coinage argued that no great increase in the supply of silver in this country was possible. "Where would the silver come from?" they asked. This contention ignores some fundamental principles of political economy. It is true that no large supply of silver is on the market at present prices, but any considerable advance in its price would cause silver to move in this direction from all parts of the world. Wheat, for instance, might be quoted at $.76 in New York, and yet there might be little for sale at that price. However, if a reputable firm should begin to bid $.80 for wheat, quantities of the cereal would be started toward New York from all quarters of the globe. It can be shown exactly where much of this new silver would come from. The assumption that the free coinage of silver is possible without departure from the gold level of prices necessarily involves a great advance in the value of silver. A rise in the value of silver would mean a fall of prices in all silver-standard countries, and this would be impossible without an exportation of silver from those countries; consequently, the United States could not push up the value of silver unless it stood ready to absorb large quantities from countries now using silver as money. An illustration of this point was furnished in 1890 by the flow of Mexican silver to the United States. It is further contended that the countries of Europe, which now use about $1,000,000,000 worth of silver as credit money, would send none of their silver to the United States. For instance, it is argued that a 5-franc piece in France, which buys goods on a par with gold at 15.5 to 1, could not profitably be exported to the United States and exchanged for gold at 16 to 1,

a ratio less favorable to silver. This argument overlooks the fact that all silver coins in Europe are credit money, and that the public financiers of Europe recognize the fact that paper will perform the service quite as satisfactorily as silver and more economically. Like the United States, European countries have more silver coins than the people care to use. The governments would undoubtedly be tempted to exchange some of this silver for gold if a high price were offered.

86. The agitation for the free coinage of silver undoubtedly had its origin in the fall of prices between 1870 and 1896. On the ground that this fall increased the burden of all debtor classes, the gold standard was condemned. Inasmuch as silver between 1873 and 1896 had not risen in value, but had fallen about 25 per cent. since 1873, it was urged that the silver standard would yield an era of rising prices, and that justice to the debtor classes would result from its adoption. This argument fails to take into account the natural effects of free coinage. It would in all probability cause a sudden lifting of the price level in the United States, and, consequently, a great disturbance in all business relations. Silver would have a new value as a result of the money demand thrust on it; but after that new value had been once established, its future course would be problematic. In fact, there is no reason for supposing that prices on a silver basis would steadily rise. The value of silver is governed by causes similar to those which control the value of gold. There would be periods of rising and periods of falling prices, just as there have been under the gold standard. Furthermore, the whole argument based on the evil of falling prices is destroyed by the present large production of gold and the consequent rise of prices.

87. In support of the free coinage of silver, it was urged that exports from the United States would be greatly increased as a result of the adoption of the silver standard. This argument rests on the assumption that silver prices and gold prices will not be the same, and, furthermore, that silver will continue to fall in value with respect to gold. It is

perfectly true that exports would be increased temporarily by a change to the silver standard. So long as prices in the United States stood below the level of prices in other silver-standard countries, buyers would rush hither with silver, and exports would grow at a marvelous pace; but this spurt in foreign trade would stop the moment the increased supply of silver had raised the prices in the United States to the level of prices in other silver-standard countries. In other words, this increase in trade would stop as soon as the value of coined silver in this country had dropped to the level of its value in other countries. Thereafter, the use of silver as money would give no advantage in trade. The free coinage of silver, if it greatly enhanced the value of silver, would, according to the arguments of the silver men themselves, produce a panic in all the countries using silver as money, for it would bring about a sudden fall of prices in those countries that would entirely upset the calculations of their business men. From such countries, at least during the depression thus caused, no increased demand for goods from the United States could be expected.

FIAT AND CREDIT MONEY

FIAT MONEY

88. Fiat money is money, the supply of which is regulated artificially. The value of fiat money depends on the demand for and supply of money, and not at all on the value of the material of which it is made. Fiat money may be made out of any kind of material, but its most common form in the past has been inconvertible paper money. Fiat money, however, may be made of gold or silver. To illustrate, assume that the mines of the world have put out an excessive supply of gold. In order to prevent too great an uplift in prices due to the immense output of gold, let Congress suspend the free coinage of gold. The gold coins in the United States would become fiat money, for no matter

how great the supply of gold, the supply of coin would remain stationary and be independent of the value of the gold contained in it.

89. Depreciated credit money is the most common kind of fiat money. As a rule, credit money is just as good as money. If, however, the supply of this credit money exceeds the demand, or if the people lose confidence in the issuing bank or government, it depreciates in value. As depreciated legal-tender credit money is worth less than the money that it represents, debtors evidently will profit by its use. This money will get into circulation rapidly, and soon all business will be transacted by means of it; it will become the standard of price and the basis of credit. Then, credit money is no longer a promise to pay money, it is money itself.

90. Greenbacks as Fiat Money.—The **greenbacks** in circulation from 1862 to 1879 illustrate fiat money. During the Civil War, owing to numerous losses in battle, Northern credit had greatly weakened. So much gold was withdrawn from the banks that the latter were obliged to suspend specie payment on January 1, 1862. The result was that bank notes were about the only kind of money in circulation. As the government needed money and could not get it from the banks, a legal-tender act was passed by Congress. As a result of this act, about $400,000,000 worth of United States notes were issued, payable to bearer and bearing no definite date of payment. These notes, although never worth their face value in coin, became the money of the North. Practically all business in the North was done on a greenback basis. The Pacific Coast States continued to use gold. In 1875, a law was passed providing for their redemption in gold, but not until 1879 did greenbacks reach a parity with gold.

91. During the war period (1860–1865) there was a steady decrease in the value of greenbacks, due to the increase in their supply and to the fact that their payment was uncertain because the issue of the war was yet undecided. By 1865 the greenback prices of goods had risen over

100 per cent. The greenback was not regarded as a mere promise to pay, but had become money itself. It was then fiat money and no longer credit money. After the war, the demand for money increased rapidly, while at the same time the supply of money was being reduced because the legal-tender interest-bearing notes were being retired. Prices therefore fell. During the resumption period (1875–1879), the country was preparing to return to a gold basis. The value of the greenback was steadily increasing, because the steady increase in the population and the development of new territory and new industries caused an increase in the demand for money, while there was no corresponding increase in the supply. The value of the greenback steadily advanced and prices declined.

92. Greenbacks and the Price of Gold.—When greenbacks became fiat money, gold, like other commodities, had a price quoted in greenbacks. As greenbacks depreciated in value, the greenback price of gold increased. After 1865, greenbacks having risen in value, the price of gold declined. Throughout the greenback era the price of gold rose and fell with the prices of other commodities. The price of gold was determined by the value of greenbacks. All imported goods had to be paid for in gold, not greenbacks, so their prices were dependent on the value of gold. In the same way, exported articles were affected by changes in the gold value of a greenback. Exporters to countries on a gold basis received payment in gold, which they sold for greenbacks. Whenever gold was quoted at a high greenback price, it induced men to export certain kinds of goods in order to receive payment in gold. This resulted in an increased demand for these goods in the United States and naturally caused their prices to rise.

93. French Assignat.—The most celebrated instance of fiat money is that of the French **assignat**—paper money issued after the French Revolution. The assignat was nominally a promise to pay coin, and its convertibility was supposed to be guaranteed by a claim on the church property that

he Republic had confiscated. However, as the supply of ıssignats was increased, their value fell and prices rose to great heights. They finally became worthless.

94. Fiat Money in England.—England used fiat noney from 1797 to 1820. Wishing to prevent the exporta-ion of gold, Parliament in 1797 ordered the Bank of Eng-and to suspend the redemption of its notes, and at the same ime declared the notes full legal tender. Under this so-called 'Restriction Act," the Bank issued such an excess of notes hat gold went to a premium of 16 per cent. in 1810. The bank notes of this time were the only money in use in Eng-and. They were fiat money and were the real standard of value, gold having a changeable price like other commodities.

95. Fiat Money in Austria.—Austria was on a fiat-noney basis from 1848 until 1894. In 1848 the state bank uspended specie payments, and from that time on the paper orin was the money of Austria. A new monetary system vas adopted in 1892, the crown of 4.705 grains of pure gold eing made the monetary unit.

96. Fiat Money in Russia.—Russia, after 100 years' xperience with inconvertible paper money, adopted the old standard in 1897. The new gold ruble contains only wo-thirds as much gold as the old. By thus debasing the uble, it was possible to convert the paper rubles into gold ubles without any change in the level of prices.

97. Fiat Money in India.—India had an interesting experience with fiat money after 1893, when the free coinage of silver was suspended. Immediately, the value of the upee (a coin containing 165 grains of pure silver) became greater than that of the bullion contained in it. Silver declined in value, but the rupee continued to rise. In 1899 the gold standard was adopted, and the rupee rated at 16 pence. Between 1893 and 1899 the rupee was fiat money.

98. Advocated Advantages of Fiat Money.—Advo-cates of fiat, or inconvertible, paper money hold that it would be better money than natural, or commodity, money,

because of the fact that its supply might be so regulated as to prevent any great changes in its value. The country would then be saved from the depression caused by falling prices and from the artificial stimulation due to rising prices.

99. Disadvantages of Fiat Money.—Fiat money, however, has proved itself most dangerous. Practically, the regulation of the supply would be a most difficult matter, and an overissue would always be liable to take place. No Parliament or Congress at the present time can be trusted to control the money supply of a country. Furthermore, any country that now uses fiat money is at a great disadvantage in foreign trade, for the value of its money is continually fluctuating with respect to gold and silver. Capitalists dislike to make investments in countries using inconvertible money, for they can never be certain of the value of the money in which their principal may be paid back to them. Spain and Brazil are illustrations of countries now handicapped by the use of fiat, or inconvertible, paper money.

FIDUCIARY, OR REPRESENTATIVE, MONEY

100. Credit, or **representative, money,** is any promise to pay that all the people of a country are willing to accept in place of money. Credit money should be non-interest bearing and payable on demand, and be issued by a person or an institution in which all the people have confidence. Credit money does not necessarily possess intrinsic value, for it may be manufactured from any material; its value is due to the value of the money it represents. Credit money is popularly classed as money, but in reality is a mere promise to pay standard money. Fiat money gets its value altogether from its possession of money utilities—from the supply and demand of money. Credit money has only a reflected value, varying with that of the money it promises to pay.

101. Like all forms of credit, credit money tends to lessen the demand for money by increasing its efficiency.

Because credit money is universally accepted as a medium of exchange in a community, an increase in its supply without a corresponding increase in the demand for money will tend to lessen the purchasing power of money and cause prices to rise.

102. Where several countries are using the same money standard, any increase in the amount of credit money in one of these countries will tend to make prices rise in all; for the introduction of a large amount of credit money will render the money in the country more efficient, and so large an amount of the standard money will not be required for carrying on the same amount of business. Hence, standard money will be exported to the other countries, whose prices thereupon rise because of the increased supply.

103. Convertible credit money, which is always exchangeable for standard money, will not depreciate by an amount exceeding the expense of redemption. An issue by the government of a large amount of such credit money would tend to raise prices, which tendency would be immediately checked by the desire of the people at large to obtain the gold that the credit money represents.

If convertible credit money is declared by the government to be legal tender, larger quantities of it may be kept in circulation than when it is not legal tender, for it may then be used to serve as a banking reserve.

104. Uses of Credit Money.—Credit money not only economizes the use of money, but it may make the supply of currency elastic. A credit system that does not provide for the issue of more credit money when it is needed and for its automatic withdrawal from circulation when the extraordinary need is over, is seriously defective. The element of elasticity in the supply of currency is important, because an excess or scarcity of cash abnormally affects price and the rate of interest, and because the supply of gold itself cannot be increased or diminished except slowly and after business interests have suffered. If the United States needs more cash under the present system, it must import gold.

This is not a conscious process, but is accomplished by the gradual lowering of prices here, which attracts purchases from abroad, and the raising of the rate of interest, which will attract investments. Every autumn the South and the West clamor for cash for use in harvesting crops. Checks and drafts will not serve the purpose; payments must be in hand-to-hand currency. So, every year, millions of dollars are sent from New York into the country. Discounts rise in New York, prices weaken, and gold must be imported. In the winter, the special need for currency is past and currency is shipped back to New York. This finally leads to the exportation of gold. These fluctuations of prices and interest rates mean positive loss to the country as a whole, and are unheard of in countries like Canada and France, where elastic systems of credit money have been devised.

105. Issue of Credit Money.—At the present time, credit money is issued only by governments or by banks. Government credit money is issued not because of the need for currency on the part of the people, but usually because the government is in need of funds. The government really borrows from the people when it issues demand notes for use as money. Government credit money is inelastic, because its quantity cannot be varied to meet changes in the demand for currency. The United States is now the only nation that maintains a gold reserve for the redemption of credit money. In all other countries, credit money, when redeemed at all, is redeemed by banking institutions more or less directed by the government. These banking institutions are able to attract gold by raising their rate of discount, and to discourage the export of gold by raising the interest rate. Another important danger in the issue of government credit money is that the people are liable to insist on its issue beyond the bounds of safety; they do not understand the effect of its issue on the value of money, and favor its issue rather than the imposition of higher taxes and the issue of interest-bearing bonds.

06. Credit money may be made to serve its true pur- only so long as the people have confidence in the rnment. France with its 5-franc piece and the United es with its silver dollar have demonstrated that govern- credit money may be kept at par with gold, even gh it is not legally redeemable. This credit money has depreciated, partly because the governments of these tries have made it legal tender, thereby increasing its of usefulness, and partly because the people have icit faith in the ability and willingness of their govern- ts to keep such credit money at par with gold. Again, credit money is in small denominations and is needed ne people as hand-to-hand currency.

07. A bank's liabilities consist of its notes and its osits. Both are redeemable on demand. The chief rences are: (1) The deposits, giving rise to checks drafts, are credit of limited acceptability, having a nar- circulation, and are short-lived; while the notes are it of general acceptability and have a broader and longer ulation. (2) The deposit is a debt to a specified person , of his own volition, has entrusted the bank with his ey; while the note is a debt to the bearer thereof, who know nothing whatever about the issuing bank. Checks and drafts require indorsement by the payee re they may be passed on, thus involving personal as as bank credit; bank notes are purely bank credit and ire no indorsement. Because of these differences, s as a rule are restricted by the government in the of their notes.

08. **National Bank-Note System.**—The **national k-note system** was the result of the financial needs of country during the Civil War. This system was estab- d for the purpose of creating a market for government s. According to this system, national banks may issue s only to the extent of the amount of government bonds sited. So far as security is concerned, these notes are guarded, but they lack elasticity, that is, their supply

does not automatically adjust itself to the demand. The demand for currency in the United States is about $150,000,000 larger in the autumn than in the summer, due to the payments involved in harvesting crops. Yet national banks cannot increase their issue of bank notes to meet this need unless they likewise increase their deposit of government bonds. If the bonds are selling at a premium at this time, a bank wishing to increase its note issue would be forced to assume the risk of having to sell these bonds at a discount after the period of monetary stringency had passed.

109. Bank-of-England Notes.—Notes on the Bank of England can be issued only on the deposit of an amount of gold equal to the face value of the notes issued. They are practically gold certificates. In England, as in the United States, elasticity has been sacrificed for the sake of security and convertibility. The Bank of England can regulate the supply of money only by raising or lowering its rate of discount. The act of 1844 requiring the deposit of gold against notes has been suspended three times during panics, and the Bank of England permitted to issue notes freely. In each case, this method has served to improve the situation.

110. Bank-of-France Notes.—The privilege of note issue in France belongs solely to the Bank of France. The notes are legal tender except in payments by the bank. They may be issued to the extent of 4,000,000,000 francs without the deposit of either gold or bonds. The Bank of France regulates the money supply of that country by increasing or decreasing its issue of notes according to the demands of the community. It was partly due to this freedom of note issue that France was enabled to pay Germany the war indemnity of 5,000,000,000 francs. To this also may be traced the fact that France does not suffer from a fluctuating rate of interest nor from the evil effects of panics to so great an extent as do England and the United States.

111. Canadian Bank Notes.—According to the Canadian banking system, the issue of notes is limited to the amount of paid-in capital, and no cash reserve is prescribed

by law for either note or deposit liabilities. The notes are secured in three ways: (1) They have first lien on the assets; (2) stockholders are jointly and severally liable; and (3) a redemption, or safety, fund equal to 5 per cent. of the note circulation is maintained. The notes are kept on a par with gold, because there are redemption agencies in each province to which the notes of any bank may be sent to be redeemed in gold. No Canadian bank, as a rule, ever has as many notes in circulation as the law permits it to issue, for other banks are constantly sending its notes home for redemption. Thus, a Canadian bank is always in a position to increase its note issue to meet the demand for currency.

CURRENCY IN THE UNITED STATES

112. The monetary history of the United States may be divided into five periods: (1) The period of bimetalism with gold undervalued at the mint; (2) the period of bimetalism with silver undervalued; (3) the greenback period; (4) the period of the limping standard; and (5) the period of the positive gold standard.

113. First Bimetallic Period, 1792-1834.—In 1792, the dollar was adopted as the monetary unit; it was to consist of either 371.25 grains of pure silver or 24.75 grains of pure gold. This was bimetalism at a ratio of 15 to 1. It was soon discovered that gold had been undervalued in the law and that gold coins would not remain in circulation. The gold coins flowed over to France, where they were valued at a higher rate. Then, too, very few silver coins were in circulation. Traders had found that our new silver dollar passed by count in the East and in South America as the equal of a Spanish dollar, though the latter contained about 7 grains more silver than ours. This served to draw our dollars toward foreign countries. Thus, it happened that the American people were forced to use foreign coins almost exclusively. The inconvenience resulting from the heterogeneous character of the currency would have been much

greater than it was but for the operation of the United States bank, chartered by Congress in 1791, which saved the country from much annoyance, if not positive distress. The charter of the United States Bank expired in 1811 and was not renewed. The government, therefore, in the negotiation of loans for carrying on the war of 1812, was obliged to rely on the assistance of state banks; and these institutions indulged in a riot of speculation, which ended in their suspension of specie payment in 1814. In 1816, a second Bank of the United States was chartered, the operations of which brought the country back to a specie basis in 1819. The suspension of specie payments during and after the war of 1812 cannot be said to have resulted in the adoption of a fiat standard. Many kinds of bank notes were in circulation, and at many rates of discount, but none of them became the accepted standard of prices. The metal standard was in no sense abandoned by the people; it was ever present in their calculations; and their estimate of a bank note was based almost wholly on its redemption prospects. From the resumption of specie payments after the war of 1812 until 1834, the country was on the silver standard, although the basis was nominally bimetallic.

114. Second Bimetallic Period.—In 1834, the coinage ratio of silver and gold was changed from 15 to 1 to 16 to 1. This new ratio undervalued silver as much as the old ratio did gold. The change of ratio was effected by a debasement of the gold dollar, the amount of pure gold in it being reduced from 24.75 to 23.22 grains. This change, it will be seen, made the silver dollar of 371.25 grains sixteen times as heavy as the gold dollar. At the same time, the present standard of fineness (nine-tenths) was adopted for both gold and silver coins. Prior to the change in 1834, the prices of goods represented the purchasing power of 371.25 grains of pure silver. In the current silver money, 24.75 grains of pure gold were worth $1.06, a rate of exchange that made 23.22 grains of pure gold (the new gold dollar) equal to about 94 cents in silver. The real depreciation of the standard and,

therefore, was only about 3 per cent. The monetary system established by the legislation of 1834–1837 continued in force until 1861, gold throughout this period being the real standard of prices. Silver dollars and smaller silver coins were coined to some extent, but most of them were melted or exported, because they were worth more as bullion than as money. By the act of 1853, the amount of metal in all fractional silver coins was reduced about 7½ per cent. The law also provided that these coins should be minted only on government account, freedom of coinage being thus suspended, and that they should be legal tender for not more than $5. As small silver coins thereafter possessed a value as money in excess of their value as bullion, it was unprofitable to melt or export them. The fractional silver in use at present is of the weight and fineness provided by the act of 1853. Prior to 1853, subsidiary silver coins were standard money; since that date they have been mere fiduciary, or token, money. As a result of the act of 1853, the United States, for the first time in its history, was supplied with an abundance of small silver coins of its own minting. Accordingly, in 1857, Congress repealed all laws giving a legal-tender quality to foreign silver coins. In 1873, a law was passed making all silver coins legal tender to the amount of only $5, and declaring the monetary unit to be the gold dollar of 23.22 grains fine. The free coinage of the silver dollar was suspended.

115. The Limping Standard.—In 1878, the Bland-Allison Act provided for the monthly purchase of between $2,000,000 and $4,000,000 worth of silver bullion and its coinage into dollars of 412½ grains standard. These dollars were called *standard silver dollars* and were declared legal tender for all debts. The law remained in force until July 14, 1890, the total coinage of silver dollars being $378,000,000. For the first time in the history of the United States there was an abundance of silver dollars in circulation. The Bland-Allison silver dollar was neither standard money nor credit money; it occupied about the same position in the currency

system of this country as the rupee did in India after 1898—it was fiat money and would have depreciated with excess of supply. Inasmuch as the law made this silver dollar legal tender, people had the right to expect that the government would keep it on a par with gold. As the monetary system then was neither bimetallic nor monometallic, it was said to be on a "limping standard." The act of 1878 failed to accomplish any of the purposes desired by the friends of silver, for it did not increase the money supply, had little effect on the value of silver, and did not check the fall of prices. Every silver dollar put into circulation after 1878 merely took the place that would have been filled by a gold dollar had no silver dollars been coined.

The coinage of the Bland-Allison dollars was begun at a time when the need for currency was greatly increasing, so the evils predicted by its opponents did not materialize. The year 1879 marked the beginning of a period of great industrial activity. During the next 11 years, 80,000 miles of new railroad doubled the country's mileage. In order to bring the use of silver certificates into general favor, Congress provided for their issue in small denominations. These certificates are promises to pay silver dollars. The act of 1878 provided for the purchase of at least $2,000,000 worth of silver a month. As the price of silver was less than $1.29 an ounce, more than 2,000,000 silver dollars were coined monthly. The total cost of the silver bullion bought was $308,000,000, and it was coined into $378,000,000. The difference, commonly called "seigniorage"[1] represents no profit to the government for it is under obligation to keep these dollars at a parity with gold just as it does the greenbacks. The supply of currency in the year 1890, as estimated by the Secretary of the Treasury, was as follows:

Gold and silver bullion	$695,000,000
Silver dollars	386,000,000
Subsidiary silver	76,000,000
National bank notes	186,000,000
Greenbacks	347,000,000
Total	$1,690,000,000

Of the gold, $177,000,000 belonged to the treasury, and was known as *free gold* to distinguish it from the gold that had been deposited in the treasury against the issue of gold certificates. This free gold was known as the *gold reserve* for the redemption of greenbacks. No law prescribed a minimum below which this reserve must not fall, but custom had fixed the figure at $100,000,000. The only law in any way referring to the matter was passed in 1882; it directed the secretary to suspend the issue of gold certificates when the free-gold reserve in the treasury fell below $100,000,000. Gold certificates, the issue of which was authorized by Congress, were convenient representatives of gold; bankers liked them, for they could be more easily counted in the reserves than coin. A suspension of the issue of gold certificates, it was hoped, would lead to larger use of greenbacks by bankers; the greenbacks then would not be taken to the treasury for redemption. Of the 386,000,000 silver dollars, 378,000,000 had been coined out of silver bought under the act of 1873. They were not redeemable in gold. The law declared them standard dollars. The national bank notes were redeemable in lawful money. They were secured by government bonds deposited in the treasury.

116. Sherman Act of 1890.—The Sherman Act provided for the purchase of 4,500,000 ounces of silver per month, to be paid for by an issue of new treasury notes, which were to be legal tender and redeemable in gold. Should the price of silver rise to $1.29 per ounce, such purchase was to be discontinued. The silver bullion became a reserve for the security of these notes. The notes were redeemable on demand in either gold or silver, the option being with the Secretary of the Treasury. The two metals were to be kept on a parity. This "parity clause" recognized silver money as government credit money. The act failed to raise the price of silver or to increase the supply of currency as was expected. The money was issued without being needed, for it crowded out an equal amount of gold, which had to be exported. Soon the gold reserve was so far depleted as to

were given authority to issue circulative notes equal to the par value of the bonds deposited.

118. Law in Regard to Making Deposits.—In 1907, Congress passed a law permitting the Secretary of the Treasury to deposit customs receipts in the national banks. Prior to this year, the secretary had authority to deposit in banks only the money received from internal-revenue taxes. This change in the law was made in order that the secretary might be able to relieve the money market in times of stringency. It is expected that in the fall, when currency is needed in the South and the West, the secretary will increase his deposits in banks, thus preventing the withdrawal of currency from the Eastern cities.

CANADIAN BANKING
(PART 1)

INTRODUCTION

BRIEF DESCRIPTION OF CANADA

1. Geographical Position.—The Dominion of Canada lies north of the United States and extends from the Atlantic to the Pacific and from the 49th degree of north latitude to the Arctic Circle. It is one of the largest countries in the world, and includes the Provinces of Ontario, Quebec, Nova Scotia, New Brunswick, British Columbia, Manitoba, Prince Edward Island, the Northwest Territories, and the Yukon District, with an area of 3,653,946 square miles. Newfoundland is a British possession but is not part of the Dominion.

Although Canada is one of the colonies of the British Empire, the Canadians govern themselves and make their own laws. The only relation to the mother country in the matter of government is maintained through the Governor-General, who is appointed by the King.

2. Population.—The growth in population has not kept pace with that of the United States and some other countries, but the advantages Canada offers are now beginning to be appreciated and large numbers of settlers are being attracted each year.

Table I shows the population and growth of the country by provinces, as given by the census taken each 10 years, beginning with 1871.

TABLE I

POPULATION OF CANADA

Province	1871	1881	1891	1901
Ontario	1,620,851	1,926,922	2,114,321	2,182,947
Quebec	1,191,516	1,359,027	1,488,535	1,648,898
Nova Scotia	387,800	440,572	450,396	459,574
New Brunswick	285,594	321,233	321,263	331,120
British Columbia	36,247	49,459	98,173	178,657
Manitoba	18,995	62,260	152,506	255,211
Prince Edward I.	94,021	108,891	109,078	103,259
Territories		56,446	98,967	211,649
Total	3,635,024	4,324,810	4,833,239	5,371,315

3. Products.—It is necessary for the prosperity of a large and productive country to have a ready and convenient market for its products. This Canada has in England, which is practically dependent on its colonies for the necessaries of life, and will always serve as a favorable market for all that Canada may be able to produce.

Canada is not dependent on agriculture alone, but is also rich in minerals. Coal, silver, copper, iron, and gold have been found in large quantities. At Cape Breton, there are enormous deposits of coal, which not only furnish Canada with fuel, but from which shipments are made to England, the United States, and elsewhere. Important deposits of coal have also been found at other points. The great forests of the Dominion have also contributed largely toward Canada's wealth, lumber being one of the principal exports. A small portion of the population has been engaged for many years in the fisheries, and shipments of cod and other fish are made to all parts of the world.

For a long time, there was very little manufacturing carried on in the Dominion, but during the last 30 years, great progress has been made in that direction. At the principal centers, there are large cotton mills, sugar refineries, iron

and steel works, etc.; and while Canada imports large amounts of manufactured goods from the United States, it is becoming more and more independent each year. It also derives many advantages from its proximity to the United States, as there is a constant intercourse between the two countries.

HISTORY OF BANKING IN CANADA

4. Origin of Banking System.—The basic principles of the Canadian banking system are taken from the Scotch, to which fact its stability and integrity is largely due. It will, therefore, be interesting to trace its history from the beginning and to note the points of likeness and of difference between the two systems. The first bank to do business in Scotland obtained its charter under the authority of an act of the Scotch Parliament of July 17, 1695, and took the name of the Bank of Scotland. This charter was somewhat similar to that of the Bank of England, and gave to the bank the exclusive banking privilege in Scotland for 21 years. There was considerable opposition to this monopoly, however, and the Bank of Scotland found it difficult to protect its sole right. At first, no public deposits were received, but notes were issued. In December, 1704, the bank suspended specie payments. A method was then devised by which the notes bore interest until they were paid, this having the effect of keeping them at par. This plan is followed in Canada in the case of failed banks with notes outstanding. The Royal Bank of Scotland opened for business on December 8, 1727; the British Linen Company Bank, in 1746. These three are the principal banks in Scotland today. In 1774, the Bank of Scotland increased its capital and began the policy of establishing branches, and today branches of the parent banks may be found in almost every hamlet in that country.

5. There were three causes that led to the founding of joint-stock banking companies: (1) The lack of a circulating medium that could be used as legal tender for the payment

of all debts, demands, etc.; (2) the fact that capitalists saw the probability of profit as a result of establishing such banks; (3) the fact that the legislature saw that by granting reasonable rights to these companies, commerce and the industrial arts would be greatly encouraged.

The Scotch system, as in use in a land of comparatively small area, has been modified to meet the needs of a vast and, in some portions, a sparsely settled country. Such changes as have been made are the result of years of varied experience and have had the approval of leading bankers.

6. The following is a summary of the likenesses and differences of the banking systems of Canada and Scotland:

LIKENESSES

Security, convertibility, and elasticity of the currency
Little opportunity for frauds in currency
Collection of capital and its utilization in enterprises
Stimulation of confidence in the customers
Vast credit
Facilitation of domestic and foreign commerce
Large capital
Operation of the branch system

DIFFERENCES

Canadian	*Scotch*
Has large number of banks.	Has small number of banks.
Competition is varied and intense between the old banks; is possible to form new banks.	Banks already in existence have a monopoly; is difficult to start new banks.
Limitations of note issue are economic.	Limitations of note issue are statutory.
Overdrawing of accounts is discouraged.	"Cash credit" is freely given.
Expanding of bank-note issue is easy and rapid.	Periodical expansion of bank-note issue is costly and inconvenient.

7. First Canadian Banks.—The actual establishment of banking took place in Montreal, October 18, 1792, when a stock concern to be called the Canadian Banking Company, declared its intention and desire to incorporate under the

Dominion laws. This effort proved a failure, as did several others that followed. In 1817, the business of banking took a permanent foothold, at which time the Bank of Montreal began as an unchartered institution with a stock issue limited to £250,000. In 1818, the Bank of Quebec and the Bank of Canada entered the field; these banks and the Bank of Montreal received charters in 1821. The latter bank has always been successful and it stands today not only as the pioneer, but as one of the strongest banks in existence. Agencies were soon established, the first of any importance being one in Kingston, in Upper Canada, and one in New York, thus inaugurating the branch-bank system that is characteristic of the Canadian banking business.

8. Characteristics of Early Banking System.—A striking feature of the first banks was the extreme simplicity of their governmental laws, but this must be counted as a fault rather than a virtue, for it allowed laxity in methods of administration. Shareholders were liable for an amount equal only to that of their subscriptions. The limit as to quantity of note issue was exceedingly indefinite. There was no prohibition of loans of the capital of a bank to its directors; and no enforcement of such prohibitions or restrictions as had already been formulated. Several beneficial influences, however, have been constantly at work bringing about more and more efficiency and a greater facility for doing business. From the first, legislation was not, as is so often the case, affected by partisan or sectional feeling; what was done was for the greatest good of all concerned. Again, competition was and is free and open, and by its peculiar action has exposed weak and careless management wherever existing, thus giving opportunity to correct and modify the plan of administration. Still another good influence is the criticisms made by bankers of what they consider poor methods in other banks. Although at times such criticisms have been trenchant and severe, they have brought about good results and made those in authority more watchful of their duties.

ORGANIZATION

PROCEDURE

9. The usual method in organizing a bank is for a few men to pledge a certain amount and then interest other men of means in the enterprise. Perhaps one of the main reasons why there are not more banks in Canada is that each one is required to have a capital of at least $500,000. On account of the system of branches, a bank is more likely

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FORM OF ACT OF INCORPORATION OF NEW BANKS

An Act to incorporate the ________________ Bank

Whereas, the persons hereinafter named have, by their petition, prayed that an Act be passed for the purpose of establishing a bank in ________________, and it is expedient to grant the prayer of the said petition:

Therefore, his majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. The persons hereinafter named, together with such others as become shareholders in the corporation by this Act created, are hereby constituted a corporation by the name of ________________, hereinafter called "the bank."

2. The capital stock of the bank shall be ________________ dollars.

3. The chief office of the bank shall be at ________________.

4. ________________ shall be the provisional directors of the bank.

5. This Act shall, subject to the provisions of section sixteen of "The Bank Act," remain in force until the first day of ________________ __________, in the year one thousand nine hundred and ________________.

FIG. 1

to be successful if its shareholders are scattered and have no affiliations with other banks. Incorporation papers are first drawn up in the form shown in Fig. 1, giving the name of the bank, the place where the chief office is to be located, and the names of the provisional directors, five in number. These directors are appointed to hold office until the bank is

regularly organized, when they may be elected permanently by the stockholders. The provisional directors may, after public notice, open at the place where the chief office is to be located, and elsewhere if deemed advisable, stock books to receive subscriptions, these stock books to be kept open as long as they think necessary.

As soon as bona-fide subscriptions for a sum of not less than $500,000 of the capital stock of the bank have been received and a sum of not less than $250,000 thereof has been turned over to the Minister of Finance and Receiver-General, the provisional directors may, by publishing a notice for at least 4 weeks, call a meeting of the subscribers to the stock, to be held at the town or city named as the chief place of business of the bank, and at such time and place as is set forth in the notice. At this meeting, the subscribers determine the day on which the annual general meeting of the bank is to be held, and elect not less than five nor more than ten directors duly qualified under the Act. These directors are to hold office until the annual general meeting in the next year succeeding their election, and the functions of the provisional directors cease on their assuming office.

10. After these steps have been taken, it is necessary to apply to the Treasury Board for a certificate permitting the bank to open for business. The functions of the Treasury Board are analogous to those of the Comptroller of the Currency of the United States. That board requires satisfactory evidence, by affidavit or otherwise, that all the requirements of the Bank Act and of the special act of incorporation of the bank as to the payment required to be made to the Minister of Finance and Receiver-General, the election of directors, deposit of security for note issue, etc., have been complied with, and that the sum so paid is then held by the Minister of Finance and Receiver-General. No certificate will be given after 1 year from the passing of the act of incorporation; and in case application for the certificate is not made within that time, all privileges conferred by the

act are forfeited. On the issue of the certificate, the Minister of Finance and Receiver-General returns to the bank the amount deposited under the provisions of incorporation, less $5,000 required as security for note issue. This sum is retained until the annual adjustment takes place at the end of the year, when a further sum must be paid to the treasury to make the amount equal to 5 per cent. of the average amount of its notes in circulation during the year, which sum shall be adjusted annually. The charter having been granted, the bank opens for business. Bank charters are renewed every 10 years.

In case no certificate is issued by the Treasury Board within the time limit, the amount deposited is returned to the person depositing it, but in no case is the Minister of Finance and Receiver-General under any obligation to see to the proper application or redistribution of the same.

It sometimes happens that the necessary amount of stock has not been subscribed within the year. In such a case, an extension of time is applied for, and, if thought advisable by the Treasury Department, is granted.

It has been said that Canadian banks have a monopoly, but it is not difficult to obtain the consent of the Treasury Board for the opening of a new bank, provided it can be shown that the parties wishing to organize the institution are men of good character and likely to carry out the promises made, and that the stock has been fully subscribed.

INTERNAL REGULATIONS

11. The shareholders of the bank may, besides naming the date of the annual general meeting and electing directors as already mentioned, pass by-laws regulating the following matters: qualification of directors; method of filling vacancies in the board; date for election of directors; remuneration of directors; amount of loans or discounts to be granted to directors, customers, or others; the authorizing of guarantee and pension funds; and the removing of directors. To qualify, a director must hold paid-up stock as follows:

When paid-up capital is $1,000,000, $3,000 paid-up stock; when paid-up capital exceeds $1,000,000 but does not exceed $3,000,000, $4,000 paid-up stock; when paid-up capital is $3,000,000, $5,000 paid-up stock.

Every shareholder shall, on all occasions when shareholders' votes are taken, have one vote for each share held by him for at least 30 days before the meeting and a simple majority of the shares present or represented by proxy is sufficient to carry. No person is permitted to vote or act as proxy unless he is a shareholder; and no manager, cashier, or clerk, or other subordinate officer of the bank shall vote in person or by proxy.

The directors, who are generally located at the main office, elect a president and a vice-president from among themselves. They may also appoint directors for any branch of the bank.

The shares of a bank are transferable and for that purpose transfer books are kept at the head office and sometimes also at a branch. The transfer of these shares is governed by such regulations as the directors may prescribe.

No dividend or bonus exceeding 8 per cent. per annum shall be made unless after making the same the bank has a reserve fund equal to at least 30 per cent. of its paid-up capital and all bad and doubtful debts shall be deducted before the amount of such reserve is calculated.

Full monthly returns shall be made to the Treasury Department showing the general balance sheet, and shall be signed by the president or vice-president, and by the general manager or cashier.

POWERS

12. A bank may open branches, agencies, and offices, and may engage in and carry on business as a dealer in gold and silver coin and bullion, and may deal in, discount, and lend money and make advances on the security of, and may take as collateral security for any loan made by it, bills of exchange, promissory notes, and other negotiable securities,

or the stock, bonds, debentures, and obligations of municipal and other corporations whether secured by mortgage or otherwise, or Dominion, Provincial, British, foreign, and other public securities, and it may engage in and carry on such business generally as appertains to the business of banking; but, it shall not, either directly or indirectly, deal in the buying or selling, or bartering of goods, wares, and merchandise, or engage or be engaged in any trade or business whatsoever; and it shall not, either directly or indirectly, purchase, or deal in, or lend money, or make advances on the security or pledge of any share of its own capital stock, or of the capital stock of any bank.

A bank may, under certain conditions, as laid down in the Bank Act, lend money on the security of independent warehouse receipts; bills of lading; assignments of goods in a firm's own warehouse; standing timber and timber licenses; and on vessels. The first four securities have to be taken when a loan is made, the fifth may be taken then or after.

A bank may, under certain conditions, as laid down in the Bank Act, take security under other sections than the foregoing on real, personal, immovable, or movable property as additional collateral security for debts incurred in its favor.

NOTE ISSUE

13. Each bank has the privilege of issuing notes to the amount of its paid-up and unimpaired capital. Originally, the security of the note holder was not greater than that of the depositor, but as bank charters are renewed every 10 years by act of Parliament, there have been changes in this respect. In 1880, the notes issued by a bank were made a prior lien on all its assets and 10 years later a guarantee fund of 5 per cent. of the circulation was created. This fund bears 3 per cent. interest and may be drawn on if an institution fails and the assets are not sufficient to redeem its notes within 60 days. Notes of insolvent banks bear 5 per cent interest from date of suspension until the liquidator announces his ability to redeem. All payments from this fund are made

without regard to the amount contributed by the insolvent bank. In case the payments exceed the amount contributed by the insolvent bank to the fund and all interest due by the Treasury on such contributions, the other banks make good to the fund the amount of such excess pro rata, to the amount of 1 per cent. of the average amount of its notes in circulation in any 1 year, but no bank is called on to contribute more than 1 per cent.

Notes are not issued for less than $5 nor for any sum not a multiple of it; they are payable to bearer on demand. Banks were formerly allowed to issue notes for $1 and upwards; but since 1871, only the Dominion Government can issue notes of denominations less than $5. As such notes are likely to remain in circulation for a much longer period than those of larger denominations, this legislation was purely in the interest of the Dominion Government.

The Canadian system of note issue differs materially from that of the United States, where banks are required to deposit government bonds with the government, and where until recently no banks could issue notes above 90 per cent. of the par value of the bonds. In Canada, each bank has charge of its own notes, and the government has nothing to do with their issue, except in a supervisory capacity. The bank has an engraver make a design under its supervision, and the notes are printed on paper furnished by the engraving company. For many years, notes were engraved in the United States, but since a branch of a large bank-note company was established at Ottawa the greater part of the notes have been printed at the latter place. With the signature of one officer printed on the notes, they are forwarded, usually, to the main office of the bank, and from there they are distributed to the various branches. No note is valid, however, until it bears the written signature of an authorized officer, usually the manager of the branch to which the notes are sent. When the second signature is affixed, the notes are ready for issue and are placed in the teller's custody. Each note represents a debt of the bank, but they are paid out in settlement of the bank's obligations to the depositors.

The general manager keeps a book of record of each parcel of new notes received from the bank-note company by the numbers, date of issue, denominations, and amounts. They are then sent to branches for signature and issue. Defaced and mutilated bills are sorted out by the tellers at the branches from day to day and are forwarded to the office of the general manager. There they are recorded in the register and deducted from the total received from the bank-note company. They are also counted, usually by three directors, and then destroyed by them in the note incinerator, the directors certifying to the fact of their destruction. The Canadian system differs from the English in that notes may be reissued, while in England they are destroyed by the directors at the bank of issue.

As all notes are issued for profit, it is to the interest of the bank to keep them in circulation as long as possible. It is at small and remote places that circulation is likely to remain outstanding for a long time, and were it not for this fact it is unlikely that many branches now carrying on business would be in existence.

If the total amount of a bank's notes in circulation should at any time exceed the amount authorized by the Act, the bank will incur a heavy penalty. If such excess is not over $1,000, a penalty equal to the amount of the excess is imposed; for an amount over $1,000 and not over $20,000, a fine of $1,000; for an amount over $20,000 and not over $100,000, a fine of $10,000; for an amount over $100,000 and not over $200,000, a fine of $50,000; for an amount over $200,000, a fine of $100,000. There is also a penalty of imprisonment of an officer who wilfully violates the Act with intent to defraud.

If a bank is liquidated, the payment of its notes is a first charge on all its general assets, the claims of the Dominion Government ranking second, those of Provincial Governments third, and the general public fourth. Many have looked on this provision as discriminating against the depositor, for since the bank's liability is practically the same for either a note or a book credit, it makes very little difference whether it is in the form of a note or a credit.

Should a counterfeit Dominion or bank note be presented to any bank officer, he is required to stamp or write the word counterfeit or worthless across its face. If the note is a forgery on his own bank, he retains it.

14. Formerly, there were two institutions in Canada that did not enjoy the privilege of issuing notes up to the paid-up and unimpaired capital—La Banque du Peuple and the Bank of British North America. Since the failure of the former, the latter is the only bank that can issue notes to the extent of 75 per cent. of its paid-up capital only. This bank can, however, issue a further amount by depositing an equal sum with the Minister of Finance and Receiver-General, but it cannot issue notes for more than its paid-up capital. The cash or bonds so deposited are available for the redemption of all notes issued in excess of 75 per cent. in case of suspension of the bank. The reason for this is that the Bank of British North America is peculiar in having a royal charter, which does not provide a double liability on the part of the shareholders, while the shareholders of all other banks are liable not only for the amount originally invested, but may be called on for an assessment of an equal amount, as is the case in America.

15. Requisites of Note Circulation.—There are three requisites that enter into note circulation: first, security; second, elasticity; third, convertibility. The Canadian system is so arranged that it possesses all these qualities. The notes of a bank are a first lien on *all* of its assets. In 1892, the amount of outstanding notes was about $34,000,000. December 31, 1906, it was $87,000,000. The following figures show the security behind the note issue at corresponding periods:

	1892	Dec. 31, 1906
Capital and surplus (appearing as assets in the form of securities, loans, discounts, etc.)	$86,000,000	$159,000,000
Dominion notes and specie .	25,000,000	68,000,000
	$111,000,000	$227,000,000

This does not take into consideration the double liability of shareholders. Neither does it include that part of the assets (securities, loans; discounts, etc.) that covers the deposits which amounted, December 31, 1906, to $675,000,000, including those of the Provincial and Dominion Government. In view of the criticisms which have been made as to the security of note issues in Canada, this should be abundant proof that they are thoroughly protected.

Elasticity is also a very important quality in note issue. Under the Canadian system, there is always a large margin immediately available, as is shown by the fact that, when circulation was at its highest point in 1904, there were still some $10,000,000 available before the issue reached the limit of paid-up and unimpaired capital. When the demand for money is over, these notes are redeemed by the banks and put away in the vaults until they are again required. This system has always been criticized for giving to banks what looks like an almost unlimited privilege, but no bank can issue notes without keeping in view its liability to pay, any more than a merchant can issue his paper without having in mind that he must be in readiness to remit when it matures.

The notes issued by the Canadian banks are readily converted into either Dominion notes or specie. It therefore makes very little difference to the holder whether he has bank notes, specie, or Dominion notes, as he can change one into the other at will. In order that notes may be at par in any part of the Dominion, each bank is obliged to arrange for the redemption of them at the principal centers. If the bank has no branches at these points, it usually makes an arrangement with some other bank whereby its paper will be redeemed.

In order that there may be a bona-fide issue of notes, Canadian bankers are prohibited from in any way pledging or hypothecating them, and an advance made to any bank on the security of its notes is not recoverable under law.

The Dominion Government, by a provision requiring banks to carry 40 per cent. of their reserves in Dominion notes, has obtained a large loan without interest. The banks, however, have the same privilege in note issue, for

ı bank with a paid-up capital of $1,000,000, through its note ssue, practically has a loan of that amount of money without nterest. For this reason, every bank is competing to get he largest loan possible without interest, and is trying to ceep its notes in constant circulation. Therefore, each bank n the principal cities daily presents, through the clearing ıouse, the notes it holds on other members. Each bank, as t redeems such notes, immediately endeavors to reissue them ıt some point where they will not soon again be returned.

Where a bank has issued notes up to its limit, it usually irculates the notes of some other bank, the circulation of vhich is below the limit, and generally receives compensaion in some form for this service; but it is not, of course, o the interest of a Canadian banker to pay out the notes of ı competitor so long as he can issue his own.

There are always two opposing forces at work: one to xpand and circulate, and the other to contract. These two orces have resulted in an inflation of the currency when equired and have also prevented great contraction.

RESERVES

16. The Bank Act requires that all banks shall keep at east 40 per cent. of their total cash reserves in Dominion ıotes, which is akin to the Dominion Government forcing a oan from the banks to that extent, and while the government s always prepared to redeem its own notes in gold, this law precludes the banks from presenting more than a certain ımount of them to obtain specie. If, in the course of business, a bank should collect specie to the extent of more han 60 per cent. of the cash reserves carried, it must under he law, change the overplus of specie to government notes.

The management of each bank is the judge of the amount of reserves to be carried, the government having no voice in he matter. Canadian bankers hold that fixed reserves are unnecessary, cumbersome, and operate against the elasticity and flexibility of an institution. The character of the business of different banks is so varied that it would be difficult

to set a fixed limit of cash reserves, as in the case of one bank it might be necessary to carry 10 per cent. and for another bank 25 per cent. The experience of the past has been that the cash reserves in gold and legal tender have averaged about 10 per cent. of the total amount of deposits. It is well to note, however, that a large part, often two-thirds, of the deposits in Canadian banks is payable only after notice or on a fixed date; and although time deposits are usually paid on demand, the privilege of notice can be exercised in case of need.

Under the Canadian system, the notes of a bank constitute a large part of the amount paid out from day to day to depositors. These notes usually make it unnecessary to carry large cash reserves. The largest institutions carry what might be called a second reserve, consisting of call loans in Canada and the United States, secured by collaterals. These can be utilized at a moment's notice, thus placing a bank in a position to liquidate possibly 50 per cent. of its liabilities quickly. The principal bankers also have credits for large amounts with their correspondents abroad and these may be drawn on readily.

The liabilities of Canadian bankers are not confined to the Dominion only, but extend to the United States, England, and other countries. Dominion notes, of course, are not available for payment of obligations outside the Dominion. The only medium that can be used in settling liabilities in the United States is American gold; and in Great Britain, the British sovereign.

In order to protect itself when large amounts of American gold have been requested for shipment to the United States, the Canadian Government has at times asserted its privilege to pay out British sovereigns; and if gold was to be shipped to England, it has redeemed its notes in American eagles. This immediately places the bank presenting the notes at a disadvantage that is likely to cause a loss on the coins, as in neither case could the bank ship, because American liabilities must be paid for in American gold and British liabilities in sovereigns.

There is no government mint in Canada, but American and British gold coins are legal tender, the eagle being exchanged for $10 in Canadian currency, and the British sovereign being valued at $\$4.86\frac{2}{3}$. The silver coins in use are struck off by the British mint and are legal tender to the amount of $10; copper and bronze coins are legal tender to the amount of 25 cents. All bills issued by the Dominion Government are also legal tender and are redeemable in gold on presentation at the office of the Receiver-General in any province.

Dominion notes are issued for $1, $2, $4, $50, and upwards. The larger ones are held principally by the banks and are used as a medium for effecting exchanges at the several clearing houses from day to day.

EXCHANGE DEPARTMENT

17. On account of Canada being an English colony and closely affiliated with the mother country, large exports of food stuffs and other products are made yearly. Very few banks at their Canadian offices make a specialty of foreign exchange; that is, they do not deal in exchange extensively. This is left more particularly to their offices in the United States. Each branch at the principal cities, however, is equipped for handling exchange—bills that are drawn against shipments of lumber, grain, cheese, fish, coal, etc. Each bank has correspondents at the principal European cities, and these bills are forwarded for credit of the bank, and the proceeds are drawn from time to time by selling the bank's own drafts. In order to facilitate matters, foreign accounts are kept only by the principal offices, as Montreal, Toronto, Halifax, Vancouver, etc. Agencies at interior points are quoted rates at which they may buy and sell bills—in some instances daily, and others weekly, depending on the importance of the branch. The principal banks used in London by Canadian institutions are those that transact this class of business. They are the Bank of Scotland, Royal Bank of Scotland, British Linen Company Bank, Parr's Bank, Limited, London and Westminster Bank, Limited, Union of London

and Smiths Bank, Limited, London City and Midland Bank, Limited, and the agencies of the principal Continental banks located in London. The principal foreign connection is usually made in London, and is oftentimes of great value. In Canada, money can usually be loaned safely at 4 per cent. and upwards. In making arrangements with a London bank, the terms of the account include the amount of credit to be allotted for cash drawings and that to be utilized for drawing *long bills*. To cover such credit, first-class American or Canadian securities are usually lodged with the bank abroad, or may be held for its account by one of their correspondents in the United States or Canada.

The cash credits can be availed of by drawing either by cable or check, at will. On these, the Bank of England rate, or 1 per cent. above that rate, is usually charged when the account is in debit, while on credit balances, interest is allowed at from 1 per cent. to 2 per cent. under the bank rate. The credit is usually apportioned to the bank as a whole; that is, if the bank is given a credit of £200,000, this credit is distributed by the general manager among the principal branches. Each branch is obliged to confine itself to the credit apportioned to it; that is, if the Montreal branch were given £50,000, this branch must at no time draw in excess of this amount. If the demands on the branch exceed this sum, it will be necessary to *cover* (provide for the excess) at once, although the account might show a credit balance for the bank as a whole on the books of the London correspondent. Marks, francs, guilders, etc. are quoted in Canada as in the United States, but the system of quotations for sterling is different. In the United States, the quotation is made on the basis of so many dollars to the pound, the par being $4.8667, and the quotation is always made by this method; but in Canada, the old par of exchange is used, and the quotations are made, say, $8\frac{3}{4}$, $8\frac{13}{16}$, etc. The actual rate is arrived at by taking the old par of exchange ($\$4.44\frac{4}{9}$). If the quotation of exchange was given at 10, this would mean the rate of $\$4.44\frac{4}{9}$ with 10 per cent. added, or equivalent to $\$4.88\frac{8}{9}$.

PROFITS

18. The Canadian banks perform a great public service by providing branches throughout the Dominion and elsewhere where funds can be safely kept, earn a fair rate of interest, and be had when wanted. They supply money when needed by manufacturers, merchants, farmers, and others; they collect, by draft and otherwise, the debts due their customers; and they provide circulation wherever required. In performing these services, however, banks must not forget their shareholders, who are looking for dividends; consequently, the general manager is constantly on the lookout for safe and profitable loans, investments, etc. Canadian bank shares are much sought after, and the yields on the market prices range from $3\frac{3}{4}$ per cent. to $5\frac{1}{4}$ per cent. One bank, with a capital of $9,000,000 and shares of $50 each, has over 3,000 shareholders.

Canadian banks usually close their books June 30 and December 31 of each year. In order that the general manager may be advised of the earnings of the bank as a whole, a statement of profits is called for from each branch quarterly; that is, the manager of each branch must make up a complete statement showing the amount earned at his branch for each 3 months. At the end of each $5\frac{1}{2}$ months, he makes up a statement of the earnings to date, and an estimate of the probable earnings for the 6 months. At the end of each 6 months—that is, on June 30 and December 31—entries are made at the different branches, crediting the head office with whatever amount may have been earned net. Some branches may not show any earnings, but on the other hand may debit the head office for the greater part of their expenses. This would be the case at a branch where the business is chiefly made up of deposits, and the money is transferred to a branch where it can be more easily and safely loaned. It is necessary to pay interest on such deposits, which the branch debits to its interest account, and this, added to charges, will show a considerable sum, unless the money is employed at the branch. But in the branch banking system,

it makes very little difference where the earnings are made or the money is used, as long as it is safely and profitably employed. For that reason, large amounts are loaned at the principal cities—Montreal, Toronto, Winnipeg, and elsewhere—to greater advantage than they could possibly be employed at small branches.

The principal source of a bank's profit is interest on its commercial loans and discounts, which average about 6 per cent. Nearly all the large institutions also have considerable amounts invested in Dominion and Provincial securities and in high-class American bonds, the returns on which are about 4½ per cent. They also employ a large amount on call in New York, such loans being secured by collaterals listed on the New York Stock Exchange. The percentage of loss on such loans is very small, but the average rate of interest probably is not more than 4 per cent. a year. These loans are available at any time and really serve as a second reserve.

The other sources of profit are foreign and domestic exchange, commissions, etc. Canadian banks were at one time the largest dealers in foreign exchange in the United States and the profits were large; but, in late years, the national banks have taken it up as a part of their regular business and competition has become so keen that the margin of profit is now very small. Canadian banks having agencies in New York, as well as in London, still make a satisfactory profit by using their credit; that is, they sell bills of exchange, chiefly drawn at 60 or 90 days' sight, on their London agencies, which practically amounts to giving their own notes payable at a specified date. These bills are sold on the basis of the private discount rate in London, which usually runs from 2 to 4 per cent., seldom reaching 6 per cent. The proceeds of such bills are employed at, say, 6 per cent., and the difference between the private discount rate and the rate at which the money is employed, represents the profit, allowing for the difference in exchange. There are certain seasons of the year when the private discount rate in London is very low, sometimes 2 per cent., and exchange in New York is at

ıe gold export point, which is usually \$4.88 to \$4.88½ per ɔund for demand sterling; and it quite often happens that lls issued during the summer at 60 days' sight can be ›vered during the fall by buying a demand bill on London : practically the same rate at which the bill put out 60 days ɜfore was sold. This gives the bank the use of the money ithout cost. The principal issuers of such bills are the ank of Montreal, the Canadian Bank of Commerce, and the ank of British North America. In making a return to ıe government, the amount of such bills issued by each ank is not always shown, as the investment of the proceeds ı loans offsets the amount realized from the sale of the ills, and some banks carry the liability by adding the pro-ɜeds of bills sold to their deposits.

While many of the banks in the United States make no ıarge for issuing drafts, the Canadian banks have adopted ıe system of foreign banks, and neither issue nor collect ıy draft without charge. The minimum charge is usually 5 cents, and the exchange collected on large items ranges ·om one-eighth to one-fourth of 1 per cent. As the collec-on business of many banks is very large, this also serves as source of profit.

HEAD-OFFICE DEPARTMENT

19. The **head-office department** is usually stationed t the chief office of the bank, but is entirely separate from the ıain or public office. The officers are: general manager, ıperintendent of branches, inspector, secretary, chief account-nt, and clerks.

The **general manager** must be a trained banker, familiar ith the routine of the bank, courteous, obliging, but at the ame time firm in his policy. His duties are somewhat imilar to those of a cashier in the United States. He is ccountable to the president and directors and must lay efore them all matters of importance. In the larger insti-utions, the general manager is in almost daily communica-ion with the managers at the principal branches. He ecommends the establishment of branches, the sites and

kinds of buildings to be erected, etc. He also sees that the funds of the bank are safely invested and that the bank is protected against fraud. In some cases, his staff consists of several hundred persons, and his duties are many and the work arduous. The manager of each branch reports to the general manager all matters relating to the business of his branch, and these communications must be answered quickly either by letter or wire.

The **superintendent** scrutinizes and criticizes the branch liability returns, looks into new customers' loans applied for by the managers and gives assistance to the general manager in innumerable ways.

The **inspector** visits all the offices of the bank. He verifies the cash, securities, bills, accounts, etc., reports on the loans and assets, and in fact does everything possible to satisfy himself that the loans are safe. He reports to the general manager, who takes up any points with the branch manager.

The **secretary** has charge of the correspondence; that is, he receives and distributes the incoming mail and sees that all outgoing letters are in order. He looks after agreements with other banks and bank premises. The staff is in his charge and he makes the minor moves.

The **chief accountant** looks after all the bookkeeping, note circulation, adjustments, government returns, pension and guarantee funds, stationery supplies, etc.

A general ledger is kept in which transactions made direct by the head office are recorded. These consist principally of dealings in bonds, stocks, real estate, etc. In it is also kept a home-office account in which all entries for branches are debited or credited from a daily list forwarded by each. A liability ledger is opened for each branch and is posted from the daily returns.

BRANCHES OF BANKS

20. Canada is a country of large banks having the privilege of opening branches in any part of the Dominion and elsewhere. The larger banks have branches extending from St. John's, Newfoundland, on the east to Vancouver, British Columbia, on the west and some have established branches outside the Dominion, where the field seemed attractive and where opportunity was offered to carry on business safely and profitably. One institution has branches at Kingston, Jamaica, and Boston; another, at Havana and Santiago, Cuba; while others have branches at New York, Chicago, New Orleans, San Francisco, Seattle, and other American cities. Each branch must, of course, be governed by the laws of the country or state in which it is located; some countries or states do not allow a foreign corporation to carry on a regular banking business in competition with local institutions and others impose heavy taxes on foreign banks. In the newer parts of a country, however, where large amounts of money are needed, there is greater liberality and the cooperation of foreign institutions is invited.

In the state of New York, foreign banks are prohibited from accepting local deposits and therefore the business of branches in New York City is confined principally to employing their funds on call, on time loans, and to a general foreign-exchange business. A tax of 5 per cent. is also exacted on the total amount earned by a local branch of a foreign bank. This tax is a severe drain on its profits when it is possible to employ money only at low rates, but when rates are favorable it is not a hindrance.

Canadian banks do not employ their own money to any extent in New York City in making time loans, even at attractive rates, as such loans might interfere with the needs of Canadian clients. The large amounts employed on time loans represent proceeds of bills of exchange drawn at 60 or 90 days on London, Paris, Berlin, and elsewhere. Canadian banks never neglect their own customers in Canada in order to supply money to their foreign branches; it has

always been possible for a borrower entitled to advances to obtain accommodation from his home bank at a fair rate of interest. They are quite willing to make advances when it can be shown that the funds loaned are to go into a business that will insure a return of the money at a specified time. Hence, much of the development that has taken place in Canada is directly attributable to the good work done along this line by Canadian banks.

Canadian banks being banks of discount and issue, perform the same general functions throughout the world as do other banks of discount and issue. When the large wheat crop of Manitoba is ready to go to market, the banks furnish the necessary funds, being enabled by the elasticity of their note issue to do this without causing stringency in the money market. Their system of note issue also makes it profitable for them to have branches at interior points where, otherwise, there would not be sufficient business to maintain even a small institution.

THE BRANCH-OFFICE STAFF

21. The directors look to the manager of a branch for efficient and vigilant superintendence of every part of the business of the branch, including the general deportment of his staff and clerks. While the manager and accountant have duties which make them, in some respects, independent of each other, the control of the branch is in the hands of the manager and he must bear the entire responsibility. When a new manager takes charge of a branch, his first duties should be to count the cash in daily use in the hands of the teller, and also that not in daily use, called the *treasury cash;* to balance the bills and to ascertain the existence of vouchers representing the loans, trade bills, trade bills remitted, and past-due-bills accounts; to satisfy himself that the bills held for collection and the securities held as collateral and for safe keeping are in order and agree with the entries regarding them in the collection diary and securities registers; to personally provide for the safe custody of duplicate keys; and to assure himself that all the books of the branch are

balanced. Having carefully performed these duties, he will peruse the correspondence with the general manager for the past 2 or 3 years and as much further back as the interests of the bank may require. He should also examine the reports of customers, statements of their affairs, etc., with a view to acquainting himself with their contents, and to ascertain that the records are reasonably complete. He must inform the general manager of the results of these examinations. It is advisable for each manager to keep a diary in which a note is made of every matter that should be discussed with the general manager. He should also enter the date when each authorized credit expires, and those on which the general manager has requested reports on the condition of accounts, etc. In order to distinguish the items to be carried forward from year to year, it is a good plan to use red ink when making entries for the following matters: Date of departure and return of officers on furlough; dates of civic holidays, when fixed; figures of municipal assessments; rate of taxation; amount of taxes on bank property, etc.; and of income taxes on officers' salaries.

When an interview regarding a customer's account has taken place between the general manager and the manager of a branch, the latter is expected, immediately on his return to the branch, to write an official letter setting forth the points that were discussed, stating the conclusions arrived at, and asking for confirmation if correct. This does not do away with his corresponding with the general manager at other times about the account.

The manager or accountant should examine the teller's cash at the close of each day's business, checking off the items in the teller's statement book and certifying to the examination by placing his initials against the balance, the correctness of the same having been ascertained by comparison with the cash book. He should then see that the cash is placed in the teller's tin box and locked up in the safe.

In connection with the cash statement prepared for the balance sheet to be sent to the general manager, the manager should examine the teller's cash in detail; and, in addition, he

(CONFIDENTIAL)

Application for Employment

To ______ ______________

I hereby make application for employment, ______ in such position as you may see fit to place me. I will be pleased to enter your employ upon trial, according to your usual custom and subject to your rules and instructions.

At your request I have noted below replies to the undermentioned questions, which replies I hereby declare and affirm to be truth and the whole truth respecting the matters to which they relate, directly or indirectly.

1. Name in full ______________, Age______
2. Born at ______________ on ______ 1. . . __
3. Present residence ______________
4. How long have you lived in present locality? ______
5. Where did you previously reside, and how long? ______
6. Are both of your parents living? ______
7. Do you reside with your parents? ______
8. Full name of Father ______________
9. Full name of Mother ______________
10. Occupation of Father ______________
11. Do your parents own home, or rent or board? ______
12. Has either of them other means? ______
13. Have you brothers or sisters, ______ If so, please give names and occupations ______________
14. Are any members of your family dependent upon you for support? ______________
15. What property or income have you? ______
16. Do you expect to become the owner of property or money by inheritance or gift? ______________
17. State what schools you have attended and state generally respecting your education ______________
18. State name of schools or colleges last attended, and name of principal instructors ______________
19. Do you excel in mathematics? ______________
20. What are your favorite recreations? ______
21. How do you spend your spare time and evenings? ______
22. Are you fond of reading, ______ If so, what class of literature?

____

____

23. Do you use tobacco? ______. If so, how and to what extent?

____

24. Do you drink beer, wine, or liquors in any form? ______
25. Have your habits always been temperate? ______

FIG. 2 (*a*)

26. Are you a member of any club, secret society, or organization? If so, give name or names

27. Are you and your parents members of any religious denominations? If so, state what and give name of clergyman

28. Are you a regular attendant at church?

29. Are your intimate associates persons whose character, interests and habits are as good as you have herein stated your own to be?

30. State how you have been previously employed or engaged since leaving school, accounting fully for your occupied and unoccupied time. Please give full particulars as required by this form including your locations, whether engaged or not.

FROM Month	FROM Year	TO Month	TO Year	WITH Name of Employer	AS Nature of Position or Own Occupation	AT Place Where Employed Engaged or Located	Superior Officer Under Whom You Served Name and Present Address	Why Did You Leave?

31. When and by whom were your accounts last examined, and were they found correct?

32. Have you ever been dismissed or suspended from any situation? If so, state when, where, and the cause

33. Have you ever been in arrears or default in any employment?

34. If now employed, state present position and how long you have held it

35. If now employed, what salary you receive?

36. If now employed, are you required to furnish security in your present position?

37. If now employed, what are your prospects for promotion?

38. If now employed, why do you wish to leave?

39. Are you interested or engaged in any other business or employment? If so, give particulars

40. Have you any debts or liabilities?

41. Is your life insured? If so, in whose favor, in what company, for what amount, and how long in force?

FIG. 2 (*b*)

42. Could you furnish a fidelity bond for $5,000, with two responsible individuals as sureties? ______

43. Have you ever given security? If so, state

AMOUNT	TIME IN FORCE	NAME AND ADDRESS OF SURETIES	WHY DISCONTINUED

44. Have you ever applied for a bond, to a guarantee or a surety company? If so, when and to what company, and were you accepted or not? ______

45. Have you any relations, who are in business in Toronto? If so, give names, business, and addresses ______

______

REFERENCES

The applicant will please give the names and addresses of three or more persons as REFEREES, who are not related to him. They should be householders and persons of good standing, who have known him well during the past five or more years.

N. B.—The Applicant is requested not to refer to any Officer or Employé of the Service in which he is engaged.

Name	Occupation and Address	Number of Years Acquainted

N. B.—Communications addressed to us being STRICTLY CONFIDENTIAL, no reason for declining an application can be given to any party.

I hereby declare and affirm that nothing whatever has occurred in my career unfavorable or derogatory to my character, honesty, and integrity; and that it is my aim and endeavor to lead an upright, conscientious, and exemplary life.

Should I be employed by you, I will not knowingly violate or willingly permit to be violated any of the printed or stated rules and regulations of ______ now or hereafter existing; but will faithfully and diligently perform my duties to the best of my ability. I will by every means in my power endeavor to please the officers and my other superiors, and I will in all other ways by effort and example endeavor to promote the welfare of the ______ interests.

Realizing that in order to expect advancement I must establish and enhance the value of my services to ______ I shall earnestly strive to learn the rules, details and theories of ______ and to carefully inform myself respecting the history and principles of the business.

Signature, ______

Dated ______

FIG. 2 (c)

thoroughly trained and are adapted to the work. With this view, great care is taken in the selection of junior clerks. To make their selection as systematic as possible, some banks have a form like that shown in Fig. 2, which the applicant fills out in detail. The local manager then makes inquiries of the references offered by the applicant, and if after a thorough investigation he is favorably impressed, sends the application to the general manager with his recommendations, if any. The application then goes before the directors and if the applicant is accepted and is to be employed at once, his salary is fixed and the manager notified.

Declaration of Secrecy

I, the undersigned, holding an office or situation in **The Federal Bank of Canada**, do hereby declare and pledge myself upon honor, solemnly and inviolably as if I were sworn thereto, that I will observe the strictest secrecy on the subject of the accounts of all Bodies or Individuals dealing with the Bank: on the subject of all transactions of the Bank, of whatever description, with its Customers, Correspondents, or Shareholders, or with any other Bodies or Persons whomsoever; on the subject of the shares held by any Person or Persons whomsoever; on the credit or affairs of all Bodies or Persons respecting which I may acquire information through the business of the Bank; and on the nature or amount of the transactions of the Bank, or the position of its concerns or affairs, in any respect whatever, excepting only such particulars as I may be expressly authorized by the Board of Directors, or General Manager, to disclose.

Signature, ______________________

______________________, 190___

FIG. 3

A junior is taken on trial for 3 months, after which, if he has proved satisfactory to the local manager, he becomes a regular member of the staff. The salary of a junior in Canada is usually $200 per annum. His services at first are worth very little to the bank, as he is practically serving an apprenticeship, and it takes some years to learn the business thoroughly.

24. Every clerk employed must sign a declaration of secrecy, such as shown in Fig. 3, and give a bond for the faithful performance of his duties. Some banks have established a guarantee fund and every member of the staff

ıys yearly to this fund a premium of a certain amount stead of carrying bonds of a guarantee company. These emiums are invested in satisfactory securities or a fair :e of interest is paid on the money left on deposit with bank, and after some years the bond becomes paid up. case of a defalcation, the fund is drawn on up to the ıount of the bond involved and the reduction of the fund low a certain amount will make those whose bonds were eviously paid up commence to pay again.

A junior who proves faithful, and has the best interests of bank at heart is usually rewarded in a reasonable time promotion either in his own or some other branch. In ling the higher positions in the branches, preference is ways given to the bank's own men, and outsiders are never ken on if it can be avoided, for the reason that it would nd to create dissatisfaction among the members of the aff and make them feel that prospects for promotion were ubtful. The early marriage of junior officers prevents ose frequent removals necessary for their training and vancement, by making the change inconvenient to the icer or unduly expensive to the bank. In addition to s, a married clerk on a small salary has to live in a man- unbecoming his position or else incur debt, both of ich, especially the latter, are injurious to the bank, cause an undue measure of private, financial, or other grossing cares materially interferes with an officer's lity to discharge the duties of his position. Any officer t is unfitted for the work devolving on him from these ıses or for any other reason, will not be retained in the ık's employ; and no officer who assumes untimely and prudent obligations should expect any special consider- on from a bank.

25. Rules Governing Branch-Office Staff.—These ısiderations have led a number of banks to adopt rules the following character:

Any officer whose income from the bank is less than 000 per annum will be liable to dismissal on marrying,

unless the approval of the general manager is first obtained. This approval will be given if it is satisfactorily shown that the officer's prospects justify the belief that the step will not involve him in debt or other difficulty.

In the event of any officer becoming involved in debt, resorting to gambling houses, billiard rooms, or indulging in intoxicating liquors to excess, or engaging in stock or other speculations, he shall be dismissed from the bank's service.

Any officer who connives at or fails to report promptly to the general manager a fraud committed on the bank by any other officer, or any other transgression within or without the bank that may come under his observation, will be liable to instant dismissal.

No officer under the rank of manager is allowed to keep an account of any kind with the bank in the current-account ledger, and managers are absolutely prohibited from overdrawing their accounts. All officers are encouraged to keep accounts in the savings-bank department, on which a special rate of interest is allowed, in order to encourage the habit of laying aside something each month.

Every officer is entitled to a 2 weeks' furlough annually, between the 1st of May and the 1st of November, and some banks allow 3 weeks if the time is taken between the 1st of November and the 1st of May. These furloughs are arranged by the manager, with the approval of the general manager, to suit the convenience of the branch, and it is generally obligatory that every officer take a furlough.

When an officer is taken from one branch and attached to the staff of another, the bank will defray all reasonable expenses incurred in the removal. When he is sent to a branch to temporarily relieve another, the bank will bear the expense and allow an extra sum for expenses not usual at home.

The salary of an officer will be paid up to and including the day of his departure, and the manager will advise the branch to which he is going of the rate of salary and the date on which it shall be paid. When officers are sent from

:es marked * are to be filled up in officer's own handwriting.)

VATE

Branch

Report on Mr.* (Give full name)

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Age rs Months	Married or Single	Length of Service Years Months	Assumed Present Duties	Last Increase of Salary and Last Bonus	Present Salary
				Date 1 Increase, $ Date 1 Bonus, $	

grees of Efficiency in the qualifications indicated below must be denoted by numbers, 1 representing the lowest and 5 the highest degree

N. B.—An officer in the lowest rank is competent (if worthy) to be classed in the ighest grade; *i.e.*, a junior clerk might properly be ranked "first class" as such, while fter attaining to a more advanced position, he might prove so deficient in that kind of bility and experience required in, say a Manager or Accountant, that he would have to e ranked as a *second*- or even a *third*-class officer.

RITING, INCLUDING FIGURES	ADDITIONS AND CALCULATIONS	
iickness No.	Quickness No.	Industry and interest shown in work. No.
gibility and leatness No.	Accuracy No.	General aptitude for Bank work No.

lease state present duties in detail

hat other duties have been assigned to iim during the year, and how have they een performed?

as he been uniformly punctual and regular in his attendance? If not, how often ias he been irregular in his attendance, ind from what causes?

hat kind of associates has he, and how loes he employ or conduct himself out of business hours?

o you consider him an efficient and satisfactory officer?

your opinion should he be ranked as a lst, 2d, or 3d-class officer?

he deserving of promotion? Reasons. sition he is fitted for

GENERAL REMARKS

(With reference to his conduct in the office and to his behavior toward customers, which embraces tact, address, and caution, as well as to his general knowledge of business, etc. Any recommendation for special consideration by way of increase, bonus, promotion, etc., may also be embraced under this head.)

INSPECTOR'S REMARKS

Fig. 4

one branch to another, no delay in proceeding to the destination is permitted without the sanction of the general manager. The expenses of moving from one branch to another are charged to the branch to which a person is sent.

The salaries of all officers are fixed about the first of each year. As the number of employes of a Canadian bank is large and in some cases the general manager never comes in contact with them, he is usually influenced by the recommendations of the local manager. Fig. 4 shows a form in general use for the purpose.

CANADIAN BANKING

(PART 2)

OPERATION

CANADIAN BANK BOOKKEEPING

NOTE.—The entries found in many of the figures that follow are given only to show the form of making entries; the various illustrations are therefore generally independent of one another. Exceptions will be noticed in the entries used in the work of the receiving teller, the paying teller, and the note teller.

1. We will call our bank The Federal Bank of Canada, with head office at Montreal, and will deal with bookkeeping as it applies to the branch at Toronto, Ontario. The Federal Bank has a capital stock, paid up, of $1,000,000 and a reserve or surplus of $500,000; and has fifty branches located at points in Canada from the Atlantic to the Pacific, and an agency in New York City, all controlled from the general manager's department at the head office in Montreal.

The Toronto branch has been chosen to show the workings of a large office, and also because that branch has a varied business and all kinds of entries pass through their books. The staff consists of twenty persons, nine of whom come in contact with the public—paying teller, receiving teller, note teller, ledger keeper, collection clerk, discount clerk, draft and exchange clerk, accountant, and manager—the rest of the staff conduct the inside work of the office, among whom are the cash-book writer, correspondence clerk, and messenger.

There is a clearing house in Toronto to which all the twenty banks belong. A few trust companies whose charters give them power to accept deposits and on whom cheques are drawn, clear through some of the chartered banks.

The Toronto branch keeps direct accounts with The Glasgow Bank, London, England; The American Bank, Chicago, Illinois; and The French Bank, Paris, France, who act as its agents and give it all the facilities of branches.

OPENING AN ACCOUNT

2. Deposits in Canadian banks are of three classes: active business accounts, payable on demand, called *current accounts;* savings accounts; and deposits payable after notice or on a fixed date, represented by deposit receipts. Deposits on current account and savings account are handled by the receiving teller and those on account of deposit receipts by the paying teller. Accounts cannot be opened in the current-account ledger unless authorized by the manager of the branch.

Amounts of $1 and upwards are accepted in the savings department, on which 3 per cent. interest is allowed. These deposits usually represent the savings of the poorer classes and are generally small. A branch might have five hundred such accounts representing not more than $50,000 deposits. This entails a great deal of bookkeeping work, but such deposits are profitable because they bring other business to the bank.

The banks discourage, so far as possible, the issuing of cheques on savings accounts. In fact, it would not be permitted under any circumstances if competition did not render it necessary. It is best to have the depositor call at the bank with his receipt when drawing money. The receipt is retained by the bank and serves as evidence that the money has been paid. Interest on savings accounts that are to be closed should be carefully checked by a second officer before being paid.

A specimen signature of every person opening an account, either current or savings, should be filled out with a record

THE FEDERAL BANK OF CANADA

______________________________ *No.* __________

ture ______________________________

____

____

ence ______________________________

ation ______________________________

____

____

____

FIG. 1

g Partnership.
ature by any Member to Bind.

Federal Bank of Canada.

: undersigned, composing the firm of ______________________________

____

____

agree to be jointly liable and responsible to **The Federal Bank** for all transactions entered into, or hereafter entered into, said Bank in the name of the said firm, by any member nd that the signature of the name of the said firm by any ›f the same to any bill, note, cheque, receipt or other docu- .ll be as binding on the undersigned as if such signature had ed by each of the undersigned respectively by his own hand.

.ted at ______________ the ______________ 190 __

____

____

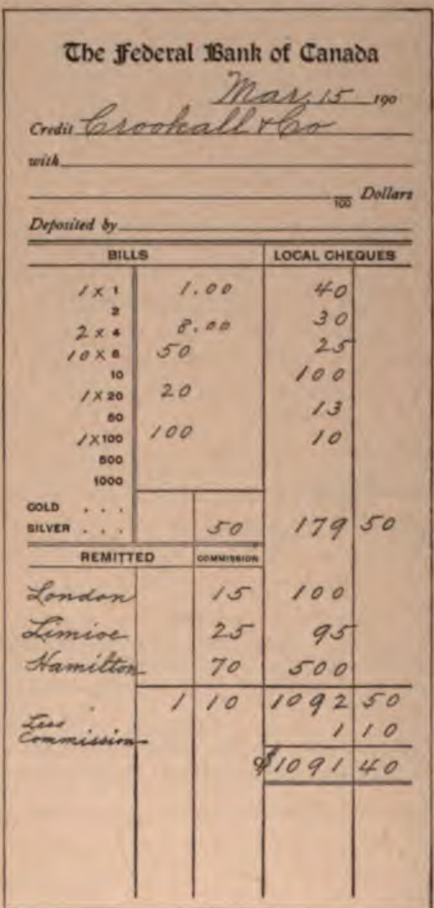
____

____

FIG. 2

of his or her designation, on a card like that shown in Fig. 1. Each savings account is given a number, which is written opposite the signature of the depositor.

In opening an account with a firm of barristers, solicitors, attorneys, surveyors, or other non-trading partnerships who are likely to become borrowers from the bank by way of overdraft or otherwise, the manager should require the signature of each one on a form similar to that shown in Fig. 2, each thus acknowledging himself to be jointly liable for all transactions entered into in the name of the firm by any individual partner or by such partner as they may designate to transact business on their behalf.


The Federal Bank of Canada

May 15 190

Credit Crookall & Co

with

100 Dollars

Deposited by

BILLS			LOCAL CHEQUES	
1 × 1	1.00		40	
2			30	
2 × 4	8.00		25	
10 × 5	50		100	
10				
1 × 20	20		13	
50				
1 × 100	100		10	
500				
1000				
GOLD . . .				
SILVER . . .		50	179	50
REMITTED		COMMISSION		
London		15	100	
Limoe		25	95	
Hamilton		70	500	
	1	10	1092	50
Less Commission			1	10
			$1091	40

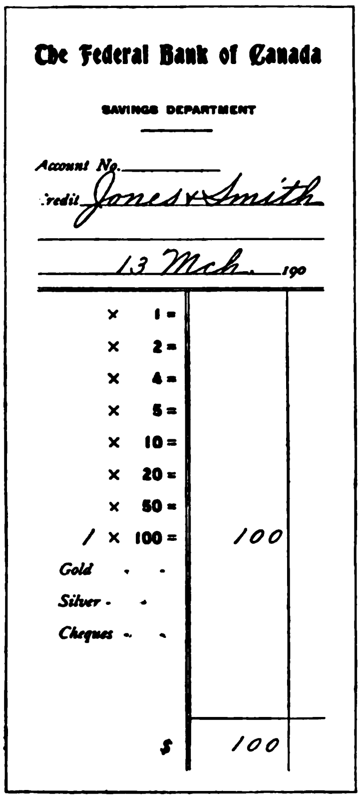
Fig. 3

Where an account is opened to the credit of two persons jointly and the law does not invest the control thereof in the survivor, the form to be used is "John Smith and Jane Smith, or either of them." Special care must be taken in accepting joint deposits. It is preferable that the handwriting on the deposit slip be that of the depositor, but in any case it must be signed by him. It is not necessary, however, that all parties should join in the signing of the

slip. The bank is justified in following instructions given by the party that deposits the money, with regard to its repayment.

RECEIVING TELLER

3. The **receiving teller** receives all deposits from the public for both current account and savings account; makes up the clearing and keeps his statement book and teller's blotter. The depositor fills in a deposit slip, as shown in Figs. 3 and 4, and hands it to the teller; the latter counts the bills and coin, examines the cheques to see that they are in order and properly indorsed and that the proper charges for commission are deducted for out-of-town items, sees that they are entered correctly, proves the summations and initials the slip. If the teller, for any reason, makes out the deposit slip, it is advisable that the customer verify the amount by initialing or signing it before the deposit is entered in the pass book. The teller enters the amount of each deposit in the deposit column on the received side of his blotter, Fig. 5, and passes the slip to the ledger keeper, who credits it to the account on the ledger and enters the deposit in the pass book, Fig. 6, for current accounts, or Fig. 7, for savings accounts. The items making up the deposits are treated as follows:


The Federal Bank of Canada

SAVINGS DEPARTMENT

Account No.

Credit Jones & Smith

13 Mch. 190

× 1 =	
× 2 =	
× 4 =	
× 5 =	
× 10 =	
× 20 =	
× 50 =	
1 × 100 =	100
Gold	
Silver	
Cheques	
$	100

FIG. 4

RECEIVING TELLER'S BLOTTER

RECEIVED				PAID			
DEPOSITS	DEPOSITS	SUNDRIES	RECAPITULATION	CHEQUES	HEAD OFFICE	SUNDRIES	RECAPITULATION
157 15			1,415 84	90	25	25 Charges	15,168 96
65 21			25	29 73	5,000	1 —	11,950
119 50			25	49 23	6,925		50
1,049 23	Difference Exchange on Wood		15	15,000			1
24 75				15,168 96	11,950		
1,415 84						Bank Collections 25	
						50	
	Clearing House		30,925	Clearing House			15,000
	Paying Teller		–	Paying Teller			10,000
	Note Teller		5,000	Note Teller			
			37,341 49				52,169 96
Balance brought forward			25,000		Balance		10,171 53
			$62,341 49				$62,341 49

FIG. 5

1. Current-account cheques on the branch are entered on the paid side of the blotter in the column Cheques.

2. Savings-department cheques on the branch are entered on the paid side of the blotter in the column Sundries.

3. Cheques or sight drafts payable at points where Federal branches are situated are entered on the paid side in the column Head Office.

4. Cheques on banks in Canada and elsewhere not having Toronto branches and without agents in that city are for-

The Federal Bank of Canada

In account with ____________

190

Month	Particulars	L. K. Initials	Dr.			Cr.			Dr. or Cr.	Balance		

FIG. 6

warded to them direct by mail and are entered in the blotter on the paid side in the column Bank Collections.

5. Drafts on the branch drawn by other Federal branches are debited to the latter branches and entered on the paid side of the blotter in the column Head Office.

6. All other items, except those included in paragraphs 7, 8, 9, and 10, are entered on the paid side of the blotter in the column Sundries.

The Federal Bank of Canada

SAVINGS DEPARTMENT.

No. ______________

Depositors are requested to notify the Bank of any change of address, and to present their Pass Books as soon as possible after the 30th of June and 31st of December for the purpose of having their interest credited.

Depositors will please hand their Deposits to the Teller, who is the only officer authorized to receive the same; and they will please hand their Pass Books to the Ledger Keeper, who will enter all deposits and withdrawals therein.

FIG. 7 (a)

The Federal Bank of Canada

SAVINGS DEPARTMENT

REGULATIONS

1.—All deposits must be entered in the Pass Book when made, and initialed by the Ledger Keeper.

2.—Interest at such rate and on such terms as the Bank shall from time to time establish will be allowed on the minimum monthly balance. The current rate can, at all times, be ascertained at the Bank.

3.—Interest is not allowed on deposits remaining in the Bank less than one month. Accrued interest will be added on 30th of June and 31st of December to all accounts open at these dates.

4.—Deposits will be paid only to the Depositor in person, except in case of unavoidable absence, when the written order of the Depositor, duly authenticated and accompanied by the Depositor's Pass Book will suffice.

5.—When an account is closed, the Pass Book must be given up to the Bank.

6.—The Bank reserves the right to require fifteen days' notice when all or any portion of a deposit is withdrawn.

7.—Depositors who lose their Pass Books will be required to furnish the Bank with a Notarial acquittance at their own expense.

FIG. 7 (b)

7. Cheques on other city banks are entered in their ;pective columns in the teller's statement book, Fig. 8; on the Bank of Montreal, in the column Bank of Montreal.

3. Cheques on outside branches of the city banks are ared by the Toronto branches of those banks less commis- n and are consequently entered as explained in paragraph 7.

9. Cheques on Canadian banks with no Toronto branches t with agents in that city are cleared through those agents, s commission, as explained in paragraph 7.

10. Sight drafts on points in Canada within 36 hours by il are cleared through Toronto banks having branches at

THE FEDERAL BANK OF CANADA

SAVINGS DEPARTMENT

No. ______________

Date		Particulars	Initials	Dr.		Cr.		Balance	

FIG. 7 (*c*)

se points, less commission, and are entered as explained paragraph 7.

Canadian bills taken in during the day are sorted into piles their respective banks and a bordereau (memorandum) ced on top of each package, Fig. 9. Bills for Toronto iks or for those banks having Toronto agents, as described paragraphs 7, 8, 9, and 10, are entered in their respective umns in the statement book.

Federal Bank bills and American currency and sundry bills made up in the same way and entered in the Recapitulation umn of the statement book as shown.

Commissions on sundry outside cheques, etc. are placed posite their respective amounts in the blotter; and at the

RECEIVING TELLER'S STATEMENT BOOK

RECAPITULATION

Toronto 15 March 190

BANK OF MONTREAL CREDIT FEDERAL BANK OF CANADA		MOLSON'S BANK CREDIT FEDERAL BANK OF CANADA		BANKS			
25	65	35	48	Montreal	85	65	
Cash 60		Wood Hm 69	90	Molsons	155	38	241
85	65	Cash 50					
		155	38	Legal Tenders			
				25×1	25		
				60×2	120		
				4			
				50			
				100			145
				F.B.of C. Notes			
				1000×5	5000		
				800×5	4000		
				×20			9000
				Mutilated			
				Specie			
				Gold British	48	66	
				" American	10		
				Silver	50	25	
				Copper		24	109
				Am. Currency	82		82
				B. of Eng. Notes			
				P.O. Orders			
				Postal Notes			59
							$1017
				Balance of Cash Book			10,17

Examined E.W. Jahr, Manager

Fig. 8

end of the day, the teller credits this to Exchange account by placing the total amount in the column marked Recapitulation on the received side of the blotter. The teller also keeps account of the commission received from customers on clearing-house items and makes up the differences between the amount he pays and what he receives and credits the difference in the same way as before. All cash or entries received from or given to the other tellers are credited or debited to them in the blotter.

The teller now rules off his blotter and adds up the different columns as shown. The entries in the receiving teller's blotter are part of those that are debited or credited in the general cash book and consequently the teller's balance for the day should agree with his balance in the general cash book, which book will be explained later.

Molsons Bank

Federal Bank of Canada

×	1 -	
×	2 -	
×	4 -	
100 ×	5 -	500
250 ×	10 -	2500
×	20 -	
50 ×	50 -	2500
×	100 -	
×	500 -	
×	1000 -	
		$5500

Fig. 9

The columns of the statement book are ruled off and the totals entered in the Recapitulation column. These, together with the total of all cash or its equivalent at the end of the day, make up the balance for the day and should agree with the balance shown in the blotter. Federal Bank bills are handed to the paying teller the following day and are charged to him in the blotter on the paid side.

PAYING TELLER

4. The **paying teller** has charge of the cash, consisting of Federal Bank bills, Dominion of Canada legals, gold and silver coin, etc. His duties are the cashing of cheques, receiving payment for drafts, etc. issued by the bank and cashing them when presented. The books used

by him are the paying teller's blotter and paying teller's statement book.

When large amounts of silver are received done up in packages, these packages should be initialed by the depositor. They should be counted by the teller as soon as convenient. The teller must always be on his guard against counterfeit money, and should be careful that no specie is received from a customer in a badly mutilated or worn state.

When a note of the bank is mutilated and not reasonably entire or where more than one-third of the note is gone and it is presented for payment, it should be referred to the general manager with a statement of the circumstances of its mutilation, if possible.

All customers of a bank prefer new notes or notes that have not been soiled and much worn. Such notes are an advertisement, and therefore, from day to day, all soiled, mutilated, and thin notes should be separated from those to be reissued. The reissuable notes should be carefully smoothed out, the corners straightened, made up into packages of hundreds, and neatly tied so that the string will not injure the edges.

The laws of Canada require of every bank officer that he shall stamp or write on each counterfeit or fraudulent note presented at the bank one of the words Counterfeit, Altered, or Worthless, but if any genuine note be so stamped the person doing so is required to redeem it at its face value.

Each teller should have a cash chest, which should be guarded by two locks, the key of one to be held by the manager and the other by the teller. No one should be permitted to enter the teller's cage except the manager, and it is advisable that the door close with a spring lock.

The paying teller prepares all money parcels for shipment, making the necessary specification of money, which ought to be written with copying ink. The accountant, and a clerk, or two other officers should count and seal up the parcel in the presence of each other, and each should initial the specification, keeping a press copy. These officers must see that a receipt is obtained from an authorized employe of an express

company, or from the post office when parcels are sent by registered mail. The two officers employed to count and seal up the packages should, each for himself, be able to make oath as to the sum enclosed. All shipments should be entered in the register of Money Parcels Despatched, and numbered consecutively, as shown in Fig. 10.

Notes of other banks not redeemed locally should not be allowed to accumulate in any teller's cash. Parcels should be made up whenever the notes to be despatched to any point amount to $1,000 or over. In remitting such foreign notes, those of each bank should be kept separate.

In Canada, Bank-of-England notes are received at $4.80 for each pound sterling. Unless required for immediate use, these should be forwarded to the main office of the bank.

5. Cheques.—As the majority of cheques

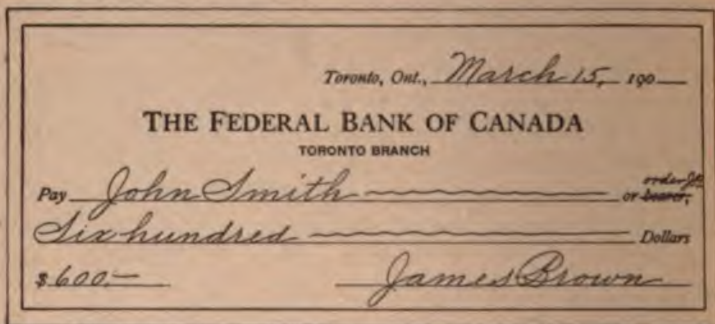
PARCELS DESPATCHED

DATE SENT	NO.	TO WHOM SENT	ADDRESS	AMOUNT	INITIALS	DATE ADVISED	DATE ACKNOWLEDGED

Fig. 10

drawn in Canada are for local use and are usually printed payable to bearer, as shown in Fig. 11, it is not necessary that those who present them be identified. When a cheque is remitted through the mails, the word "bearer" is usually altered to "order" for safety. This is done by striking out the printed word "bearer," writing the word "order" instead and initialing the change. Although cheques are printed payable to "bearer," 90 per cent. are altered to "order."

A cheque payable to order requires the payee's indorsement. If the printed word "order" is stricken out, the cheque does not thereby become payable to bearer; the word "bearer" must be written and initialed by the drawer.


Toronto, Ont., March 15, 190—

THE FEDERAL BANK OF CANADA
TORONTO BRANCH

Pay John Smith ——— order J.B. or ~~bearer~~,
Six hundred ——— Dollars
$600— James Brown

FIG. 11

Before paying a cheque the teller should examine it carefully to see that it is properly dated and filled in, the signature genuine, and the indorsement in order, and ascertain that there are sufficient funds on deposit to meet it. Payment of cheques drawn on other banks must be authorized by the manager or accountant.

The teller's stamp showing the date of payment should be impressed on all debit vouchers at the time of payment, and before any of them pass out of his hands the signatures should be canceled by a line drawn through them, this cancelation being entirely independent of that which takes place after the vouchers have been compared with the cash book. Where a customer has been in the habit of sending a messenger to the bank each week with cheques for money for

wages, etc., especial care should be taken to see that the cheque has not been forged or raised.

Should there be a discrepancy between the words and figures of a cheque, the amount written in the body always governs.

A cheque should never be materially altered. If a mistake is made, it is always advisable to make out a new cheque. A material alteration makes it void. A material alteration would be the changing of the date or the amount.

Occasionally, complaint is heard of the difficulty experienced by strangers in getting cheques cashed on account of not being able to be properly identified. While this may appear to be a hardship, it is always advisable not to transact business with a stranger unless he has some means of establishing his identity. A banker is always willing to give a letter of introduction to a customer who may intend to visit some distant point. This letter should bear a specimen signature of the party introduced, which serves for complete identification. It may save a customer much annoyance and embarrassment, and a bank time and trouble.

For many purposes, a branch is treated as a part of the central institution, but in the matter of cheques it is treated as a distinct bank, and a party carrying on business at Montreal cannot draw on a branch of the same institution elsewhere. On application to the manager, however, accounts can be transferred to any point.

6. The Canadian Act governing cheques is similar to that of England. Under British law, however, the party is not so well protected as in Canada, for the reason that in Canada, if a cheque is made payable to order, it will be paid only to the payee on proper identification. In England, a cheque payable to order, unless it is crossed, is treated as if it were payable to bearer and can be cashed by a bank. A crossed cheque has two lines drawn across its face with or without the words "and Co." or the name of a bank written between them, as shown in Fig. 12. When this is done, the cheque must be presented for payment at some bank other

than the one on which it is drawn. If a cheque so crossed is paid by a bank and the indorsements are forged, the bank paying it will be responsible; but if the indorsement of an uncrossed cheque or bill payable to order is forged, no

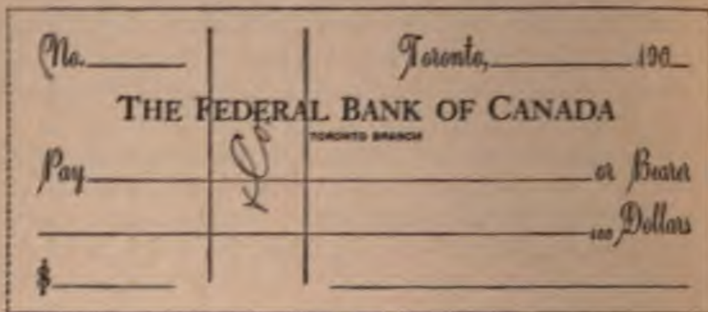

No.____ Toronto,____190_
THE FEDERAL BANK OF CANADA
TORONTO BRANCH
Pay____ or Bearer
____ 100 Dollars
$____

FIG. 12

recourse can be had to the bank. The object of requiring crossed cheques in England was to obviate the danger of forged indorsements.

A **bank draft** is a draft drawn by one bank against its account in another bank, as shown in Fig. 13.

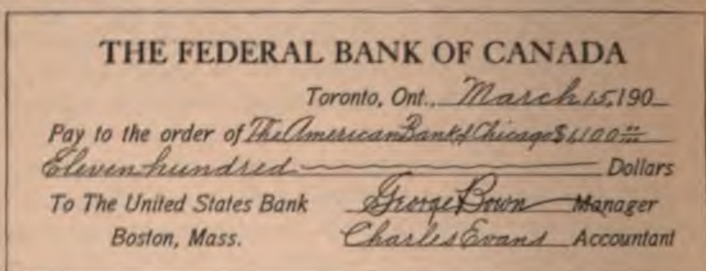

THE FEDERAL BANK OF CANADA
Toronto, Ont., March 15, 190_
Pay to the order of The American Bank of Chicago $1100.00
Eleven hundred ____ Dollars
To The United States Bank George Brown Manager
Boston, Mass. Charles Evans Accountant

FIG. 13

7. Records.—The paying teller's blotter, Fig. 14, is a book in which all the transactions for the day are entered. Cheques on the branch paid are entered on the paid side in the column Cheques; cheques on other Federal Bank branches paid are entered in the column Head Office; all other items paid are entered in the Sundries column. Drafts on branches sold are credited on the received side in the column headed

PAYING TELLER'S BLOTTER

RECEIVED — Wednesday, March 15th 190 — PAID

HEAD OFFICE	HEAD OFFICE	SUNDRIES		RECAPITULATION	CHEQUES	CHEQUES	SUNDRIES	HEAD OFFICE	RECAPITULATION
40 25		150 45		1610 11	40		45	40	610 70
60 40				150 45	20				45
90 21				1 56	60				40
1269				40	70				
50					80				
40					150 45				
1549 86		Clearing House			420 45		Clearing House		159 25
60 25		Receiving Teller		100 00	190 25		Receiving Teller		
1610 11		Note	"	40 25	610 70		Note	"	
				15787 52					16620 70
	Balance brought forward			31225				Balance	30391 82
				$47012 52					$47012 52

FIG. 14

are drawn, nor to hold over cheques received from customers without the manager's permission, nor to cash drafts drawn by officers of the bank without the manager's full sanction.

NOTE TELLER

8. The **note teller** receives the payments made for notes and acceptances as they mature, enters all credits and remittances received from branches and agents through the mail, and such items as come from the inner office in connection with the daily work of the branch. He keeps a blotter and statement book, as shown in Figs. 16 and 17. Discounts and collections due at offices of acceptors or makers are presented by the messenger and, if paid, the cash or its equivalent is handed to the note teller. The discounts and collections payable at the branch are entered in the Cheques column on the paid side of the blotter.

At the end of the day, all unpaid discounts are charged to the indorsers' accounts in the Cheques column, if funds to their credit cover same; otherwise, they are charged to Past-Due-Bills account on the paid side in the Sundries column. The total of the discounts, as shown by the discount diary, described further on, is then credited to discounts in the Sundries column on the received side of the blotter.

Collections made for branches are entered in the Head-Office column; those for customers, in the Deposits column; and those for which drafts are issued on branches, in the Head-Office column, on the received side. Items received in the mail consist of cheques from branches, parcels of sundry cash from branches, and bank drafts, etc. in payment of items forwarded for collection, etc. The note teller receives these, with their respective credits, and after initial-g the slips, enters the branch credits in the Head-Office lumn on the received side, credits for customers, under posits; and other credits, in the Sundries column.

At the end of the day the commissions collected are y placing the amount on the received side of his

NOTE TELLER'S BLOTTER

RECEIVED				PAID			
HEAD OFFICE	DEPOSITS	SUNDRIES	RECAPITULATION	CHEQUES	HEAD OFFICE	SUNDRIES	RECAPITULATION
88 64	66 51	245 79	294 74	35 43			135 43
91 10	248		465 18	100			
115	65 34		15				
294 74	85 33		45				
	465 18		245 79				
			1006 31				
				Paying Teller			4025
				Receiving Teller			5000
							9160 43
Balance Forward			12964				4809 88
			$13,970 31				$13,970 31

Fig. 16

blotter in the Recapitulation column. The cash is then sorted and entered in the statement book, also all clearing items, exactly as in the receiving teller's statement. The note teller then adds up his blotter and statement book, extends the totals, and strikes a balance.

NOTE TELLER'S STATEMENT BOOK

RECAPITULATION

Toronto 15 March 190

BANK OF MONTREAL CREDIT FEDERAL BANK OF CANADA		MOLSON'S BANK CREDIT FEDERAL BANK OF CANADA		BANKS					
C. 100		C. 25		Montreal	467	63			
50		40		Molsons	100	36			
66	66	20	36						
65	49	15							
85	48	100	36				567	99	
100				Fed Notes	2999				
467	63			Legals	555				
				Coin	200				
				Sundries	487	89	4241	89	
							4809	88	
		Balance	Cash	Book			4809	88	
		Examined		E. W. Gale,	Manager.				

FIG. 17

Federal Bank notes are handed to the paying teller the following morning and entered on the paid side of the blotter opposite Paying Teller. The clearing-house cheques, etc. taken in are also handed to the receiving teller the following morning and the amount entered.

COLLECTION CLERK

9. The **collection clerk** has in his charge the local-collection register, the remitted-collection register, local-collection diary, remitted-collection diary, and returned-collection register. All drafts and notes received from branches, agents, and others for collection are handed to the collection clerk, who initials for them on the remittance letters. He then stamps each one on its face with the collection stamp, Fig. 18, enters them in the local-collection register, Fig. 19, and numbers them. Unaccepted drafts are then entered in the messenger's book, Fig. 20, he

Fig. 18

initialing for them on the local-collection register after the date received and taking them out for acceptance. When the messenger returns, the collection clerk initials for all items in the messenger's collection book. The accepted drafts and promissory notes are then examined and if the acceptances, Fig. 21, are in order, they are entered in the local-collection diary, Fig. 22, under their due date and are handed to the accountant, who initials for them in the local-collection register and files them away until the due date arrives. If the drawee pays cash or its equivalent, the amount is handed to the note teller with a credit slip, and the amount entered in the diary and the teller initials for it. Drafts unaccepted and not protestable are returned to the sender, the correspondent clerk placing his initials in the proper column. Those unaccepted and protestable are protested and also returned.

Items not protestable are marked *Np*, as shown in the Remarks column.

The local-collection diary has a page for each day in the year and the bills are entered on the pages of their due dates.

All diaried items are marked off, in the column provided for that purpose, as they are paid or returned.

BILLS RECEIVED

DATE RECEIVED 190		NO.	ON WHOSE ACCOUNT		DRAWER OR INDORSER	PROMISSOR OR ACCEPTOR
December	13	C500	J. C. Lawrence		J. C. Adams	Hunter Bros.
		C 1	F. W. Simpson		M. M. Anderson	Young Bros.
		C 2	New York Office			F. C. Anderson

FOR COLLECTION

WHERE PAYABLE OR REMITTING BANK'S NO.	DATE		TERM	DUE		AMOUNT		INITIALS	REMARKS OR INSTRUCTIONS
Toronto	Nov.	30	30 d	Jan.	3	11.50		B.	Np - Hold for arrival of goods
"	Dec.	1	S	Dec.	16	50		B.	Np
B. C. R. C. 972		12	S		17	100		W. J. B.	Np Returned 15 Dec.

FIG. 19

10. Protest of a draft or note is a declaration by a notary that he has presented the item for payment or acceptance at the place of domicile and that notices were sent to all parties on the bill. This procedure makes all

MESSENGER'S COLLECTION BOOK

DATE 190		PROMISSOR OR ACCEPTOR	AMOUNT		COLLECTION CLERK'S INITIALS	
May	3	James Smith	100		B	
		Dalton & Co.	73		B	
	5	Denning & Co.	13		B	
		Gordon & Co.	35		B	

FIG. 20

liable for the amount, otherwise only the promissor or acceptor is liable.

All items received from customers and others for collection at outside points are entered in the remitted-collection

Accepted 15 Mch. 190

PAYABLE AT

The Federal Bank of Canada

TORONTO, ONT.

Smith & Co.

FIG. 21

register, which is the same in form as the local-collection register, Fig. 19, and in the remitted-collection diary, Fig. 23, and are handed to the correspondent clerk, who initials for them in the register. When a remittance is received in

Janu

No.	PROMISSOR OR ACCEPTOR	ON WHOSE ACCOUNT			INITIALS	AMOUNT	FATE
502	Hunter Brothers	J. C. Lawrence				1150	Paid Jan
509	Murphy & Co.	J. L. Thompson				53	Retd Jan

FIG. [illegible]

December 3rd 190

No.	PROMISSOR OR ACCEPTOR	ON WHOSE ACCOUNT	No.	TO WHOM SENT	INITIALS	AMOUNT	FATE
503	James Adams	Toronto Cider Co.	1178	Montreal		$300	

yment, a deposit slip is made out for the amount, less com- ssion, and handed to the note teller with the bank draft.

RETURNED COLLECTION REGISTER

ATE 90	NAME	TO WHOM RETURNED	AMOUNT		SIGNATURE
n. 3	Murphy & Co.	J. L. Thompson	$53		J. L. Thompson

Fig. 24

ould the item come back, it is given up to the customer l his receipt taken in the returned-collection register, g. 24.

CLEARING HOUSE

11. Clearing houses are in operation in the chief cities Canada. They were established for the purpose of facil- ting daily exchanges and settlements between banks. l banks in Toronto belong to the clearing house in that y. It is managed by a board of management composed seven of the managers, who have the general oversight the clearing house and who make rules to be observed cases not provided for by the constitution. They appoint nanager, and the Bank of Montreal acts as clearing bank the receipt and disbursement of balances due by and to various banks.

12. The following is a copy of the constitution, etc..

ONSTITUTION AND RULES OF THE TORONTO CLEARING HOUSE AS REVISED AND AMENDED, 1903.

1. The Toronto Clearing House shall consist of all the chartered iks now doing business in the City of Toronto which may desire to ome members, and of all the chartered banks which may hereafter iblish offices in Toronto, and which may be admitted to the Clearing use by a vote of the members.

2. The Clearing House is established for the purpose of facilitating daily exchanges and settlements between banks. It shall not, either directly or indirectly, be used as a means of obtaining payment of any item, charge or claim disputed or objected to. It is expressly agreed that any bank receiving exchanges through the Clearing House shall have the same rights to return any item, and to refuse to credit any sum which it would have had were the changes made directly between the banks concerned instead of through the Clearing House; and nothing in these or any future rules, and nothing done or omitted to be done thereunder, and no failure to comply therewith, shall deprive a bank of any rights it might have possessed had such rules not been made, to return any item or refuse to credit any sum; and payment through the Clearing House of any item, charge or claim shall not deprive a bank of any right to recover back the amount so paid.

3. The annual meeting of the members shall be held on the third Thursday in January in each year. Special meetings may be called by the Chairman or Vice-Chairman whenever it may be deemed necessary, seven to form a quorum, and the Chairman shall call a special meeting whenever requested to do so in writing by three or more members.

4. At any meeting each member may be represented by one or more of its officers, but each bank shall have one vote only.

5. At every annual meeting there shall be elected by ballot a Board of Management consisting of seven bank officers, four to form a quorum, who shall hold office until the next annual meeting, and thereafter until their successors are appointed. They shall have the general oversight and management of the Clearing House, and may make rules and regulations to be observed in cases not provided for by the Constitution and By-Laws. They shall also deal with the expenses of the Clearing House, and the assessments made therefor. In the absence of any member of the Board of Management, he may be represented by another officer of the bank of which he is an officer.

6. The Board of Management shall, at their first meeting after their appointment, elect out of their own number a Chairman and a Vice-Chairman, who shall perform the duties customarily appertaining to these offices.

The officers so elected shall be respectively the Chairman and the Vice-Chairman of the Clearing House.

Should the bank of which the Chairman is an officer be interested in any matter, his powers and duties shall, with respect to such matter, be exercised by the Vice-Chairman, who shall also exercise the Chairman's duties and powers in his absence.

7. Meetings of the Board may be held at such times as the members of the same may determine. A special meeting shall be called by the Secretary on the written requisition of any member of the

Clearing House, for the consideration of any matter submitted by it, of which meeting twenty-four hours' notice shall be given: but if such meeting is for action under Rules 15 or 16, it shall be called immediately.

8. The expenses of the Clearing House shall be met by an equal assessment upon the members, to be made by the Board of Management.

9. Any bank may withdraw from the Clearing House by giving notice in writing to the Chairman or Secretary, between the hours of 1:00 and 3:00 o'clock P. M., except on Saturday when any bank may withdraw before 12 o'clock A. M., and paying its due proportion of expenses and obligations then due. Said retirement to take effect from the close of business of the day on which such notice is given. The other banks shall be promptly notified of such withdrawal.

10. The Board of Management shall arrange with a bank to act as Clearing Bank, for the receipt and disbursement of balances due by and to the various banks. But such bank shall be responsible only for the moneys actually received by it from the debtor banks, and for the distribution of such moneys amongst the creditor banks, on the presentation of the Clearing House Certificates properly discharged. The Clearing Bank shall give receipts for balances received from the debtor banks. The Board of Management shall also appoint a Manager of the Clearing House.

11. The hour for making exchanges at the Clearing House shall be 10 o'clock A. M. precisely, except on Saturday, when it shall be 9:30 o'clock A. M. precisely. The balance due to or by each bank shall then be settled and declared by the Clearing House Manager, and all debit balances so declared, or, if the clearing statements are readjusted under the provisions of these rules, the debit balances then declared must be paid into the Clearing Bank between 12 and 12:30 o'clock of the same day, and between 12:30 and 1 o'clock the creditor banks shall receive from the Clearing Bank the balances due to them respectively, except on Saturday, when the debit balance must be paid into the Clearing Bank between 11 and 11:30 o'clock of the same day, and between 11:30 and 12 o'clock the creditor banks shall receive from the Clearing Bank the balances due to them respectively, provided that the balances due from the debtor banks shall then have been paid, but no credit balance or portion thereof shall be paid until all debit balances have been received by the Clearing Bank. Balances shall be paid in legal tender notes of large denominations.

Should any bank make default in paying to the Clearing Bank its debit balance within the time fixed by this rule, such debit balance and interest thereon shall then be paid by the bank so in default to the Chairman of the Clearing House for the time being, and such Chairman and his successor in office from time to time shall be a

creditor of and entitled to recover the said debit balance and interest thereon from the defaulting bank. Such balances, when received by the said Chairman or his successor in office, shall be paid by him to the Clearing Bank for the benefit of the banks entitled thereto.

12. In order that the clearing statements may not be unnecessarily interfered with, it is agreed that a bank objecting to any item delivered to it through the Clearing House, or to any charge against it in the exchanges of the day, shall, before notifying the Clearing House Manager of the objection, apply to the bank interested for payment of the amount of the item or charge objected to, and such amount shall thereupon be immediately paid to the objecting bank. Should such payment not be made, the objecting bank may, before but not after 12 o'clock noon, notify the Clearing House Manager of such objection and non-payment, and he shall thereupon deduct the said amount from the settling sheets of the banks concerned and readjust the clearing statements and declare the correct balances in conformity with the changes so made. But, notwithstanding that the objecting bank may not have so notified the Clearing House Manager, it shall be the duty under these rules of the bank interested to make such payment on demand therefor being made at any time up to 3 o'clock, and on Saturdays up to 12 o'clock; provided, however, that if the objection is based on the absence from the deposit of any parcel or of any cheque or other item entered on the deposit slip, notice of such absence shall have been given to the bank interested before 12 o'clock noon; the whole, however, subject to the provisions of Rule No. 2.

13. All bank notes, cheques, drafts, bills and other items (hereafter referred to as "items") delivered through the Clearing House to a bank in the exchanges of the day, shall be received by such bank as a trustee only, and not as its own property, to be held upon the following trust, viz.: upon payment by such bank at the proper hour to the Clearing Bank of the balance (if any) against it, to retain such items freed from said trust; and in default of payment of such balance to return immediately and before 12:30 o'clock P. M., on Saturdays before 11:30 o'clock, the said items unmarked and unmutilated through the Clearing House to the respective banks. And the fact that any item cannot be so returned shall not relieve the bank from the obligation to return the remaining items, including the amount of the bank's own notes so delivered in trust.

Upon such default and return of said items, each of the other banks shall immediately return all items which may have been received from the bank so in default, or pay the amount thereof to the defaulting bank through the Clearing House. The items returned by the bank in default shall remain the property of the respective banks from which they were received, and the Clearing House Manager shall adjust the settlement of balances anew.

A bank receiving through the Clearing House such items as aforesaid, shall be responsible for the proper carrying out of the trust upon which the same are received as aforesaid, and shall make good to the other banks respectively all loss and damage which may be suffered by the default in carrying out such trust.

14. In the event of any bank receiving exchanges through the Clearing House making default in payment of its debit balance (if any) then in lieu of its returning the items received by it as provided by Rule 13, the Board of Management may require the banks to which the defaulting bank, on an account being taken of the exchanges of the day between it and the other banks, would be a debtor, in proportion to the amounts which, on such accounting, would be respectively due to them, to furnish the Chairman of the Clearing House for the time being with the amount of the balance due by the defaulting bank,

---

No. 20.

FROM THE

Federal Bank of Canada

TO

______________________________BANK

$________________

Fig. 25

and such amount shall be furnished accordingly and shall be paid by the Chairman to the Clearing Bank, which shall then pay over to the creditor banks the balances due to them in accordance with Rule 11. The said funds for the Chairman shall be furnished by being deposited in the Clearing Bank for the purpose aforesaid. The defaulting bank shall repay the Chairman for the time being, or to his successor in office, the amount of such debit balance and interest thereon, and the said Chairman and his successor in office shall be entitled to recover the same from the defaulting bank. Any moneys so recovered shall be held in trust for and deposited in the Clearing Bank for the benefit of the banks entitled thereto.

15. If a bank neglects or refuses to pay its debit balance to the Clearing Bank, and if such default be made not because of inability to pay, the Board of Management may direct that the exchanges for the day between the defaulting bank and each of the other banks be

No. 20.

TORONTO CLEARING HOUSE

FROM

The Federal Bank of Canada

Delivery Statement ________________190__

No.	Banks	Dr. Amounts			Signature	No.
1	Bank of Montreal					1
2	Canadian Bank of Commerce					2
3	Merchants Bank of Canada					3
4	Bk. of British North America					4
5	Bank of Nova Scotia					5
6	Molsons Bank					6
7	Bank of Toronto					7
8	Ontario Bank					8
9	Dominion Bank					9
10	Imperial Bank of Canada					10
11	Standard Bank of Canada					11
12	Union Bank of Canada					12
13	Traders Bank of Canada					13
14	Bank of Hamilton					14
15	Bank of Ottawa					15
16	Quebec Bank					16
17	Sovereign Bank of Canada					17
18	Metropolitan Bank					18
19	Royal Bank of Canada					19

Fig. 26

eliminated from the Clearing House statements, and that the settlements upon such exchanges be made directly between the banks interested and not through the Clearing House. Upon such directions being given the Clearing House Manager shall comply therewith and adjust the settlement of balances anew, and the settlements of the exchanges so eliminated shall thereupon be made directly between the banks interested.

16. Should any case arise to which, in the opinion of the Board of Management, the foregoing rules are inapplicable, or in which their operation would be inequitable, the Board shall have power at any time to suspend the clearings and settlements of the day; but immediately upon such suspension the Board shall call a meeting of the members of the Clearing House, to take such measures as may be necessary.

17. The Constitution and Rules of the Clearing House may be amended at any meeting of the members, provided that not less than two weeks' notice of such meeting, and of the proposed amendments, has been given.

13. The teller and a clerk do up the cash, cheques, etc. separately for each bank, the cash by itself in a sealed envelope, and then that envelope and the cheques, together with a deposit slip showing the make up of the parcel, in another sealed envelope, and a slip, Fig. 25, showing the total amount is pasted on the outside of the envelope.

No. 20.

Toronto Clearing House

$_____ TORONTO, ________ 190__

Credit The Federal Bank of Canada,

the sum of ____________________

____

Settling Clerk

Fig. 27

A delivery list, Fig. 26, is then made of all the parcels, and is handed to a clerk, who with the messenger delivers the parcels at the clearing house at the hour named. A clearing clerk is also sent to the clearing house by each bank, who hands the manager a slip, Fig. 27, showing his bank's deliveries, and then takes his place at his wicket and receives the parcels

Clearing houses were established in Halifax in 1887; in Montreal in 1889; in Toronto and Hamilton in 1891; in Winnipeg in 1893; in St. John in 1896; in Vancouver and Victoria, British Columbia, in 1898; in Ottawa and Quebec in 1901; and in London, in June, 1902. The transactions recorded are:

Cities	1901	1902	1903	1904
	$	$	$	$
Montreal . . .	889,486,915	1,098,970,000	1,113,978,000	1,065,067,000
Toronto . . .	599,385,671	809,078,000	808,748,260	842,097,066
Halifax . . .	87,148,064	88,532,307	93,349,633	90,115,783
Hamilton . .	42,554,033	45,965,217	53,419,704	59,003,081
Winnipeg . .	134,199,663	188,370,003	246,108,006	294,601,457
St. John . . .	40,941,259	42,424,175	49,013,467	51,422,858
Victoria . . .	30,607,315	28,580,754	30,818,428	33,070,009
Vancouver . .	46,738,805	54,467,549	66,215,765	74,029,902
Ottawa		96,447,290	106,083,750	160,637,586
Quebec . . .		73,247,341	88,329,358	79,843,927
London . . .		*19,940,867	42,848,581	45,552,230
Total . . .	1,871,061,725	2,546,023,503	2,698,912,952	2,795,440,879

*Six months.

LOANS AND DISCOUNTS

15. Where banks are large and have branches scattered throughout the country, there is a perfect system of collecting the savings of the people and placing them at the disposal of the borrower. Banks with branches in the maritime provinces, where the savings largely exceed the needs of the local business, gather up the savings and utilize them in parts of the country where they are needed, and in this way the borrower and lender are brought together and the interests of both are served.

It is the policy of Canadian banks, without regard to the rates of interest, to care for the wants of their customers before those of other borrowers, and no customer who is in good standing and can furnish adequate security need be without funds to properly handle and develop an enterprise.

If a borrower in a small town wishes an advance, he makes application to the local manager, who submits it to the general manager and through him to the directors. If the advance is made, the local manager takes the collateral and gives the borrower the bank's draft on the point where the money is needed, or if required for local use, the notes of the bank. Thus it is that the large institutions, with their large capital, reserves, deposits, and the ability to use notes to the amount of their own capital can offer their customers facilities for business that can be had in no other way. Customers' borrowings in Canada, exclusive of call loans, amount to about 80 per cent. of the total loans.

A bank deals in money much the same as a merchant deals in goods. It sells the use of money at a stipulated rate per annum, its success depending largely on the character of its loans, discounts, and investments. Its funds must be employed in a safe and remunerative way, and since it is the use of its deposits as well as of its capital and reserves that enables a bank to pay interest on its deposits (about 65 per cent. of total deposits bear interest) to pay the expenses of operation, to make returns to its shareholders, and to build up a strong bank by adding to its reserves from its profits, it is essential to the success of a bank that it have borrowers as well as depositors. About 10 to 15 per cent. of the total loans of Canadian banks are made in New York and elsewhere outside of Canada, the loans in New York being made by the manager of the local branch or by an agent in case there is no branch there. Loans in New York are of two kinds, those payable on call or demand, called *demand loans;* and those payable at a fixed date, called *time loans.* Both are usually secured by collaterals, that is, the borrower in addition to giving the bank his note also deposits some form of collateral security. This security is usually railway shares represented by certificates in negotiable form or railway bonds, both of which must have a ready market on the New York Stock Exchange. Such loans are generally made to firms in which there is a partner who is a member of the exchange. Even the smallest of such firms has a certain

financial standing because a seat, which is a term used to denote a privilege on the floor of the exchange, commands a very high price and is absolutely at the risk of the business except that any contracts of the firm made on the exchange are a first lien and must be satisfied before other creditors participate. In case of failure, the seat is sold to the highest bidder, provided that he is satisfactory to the governing committee. Seats have been sold at prices above $80,000.

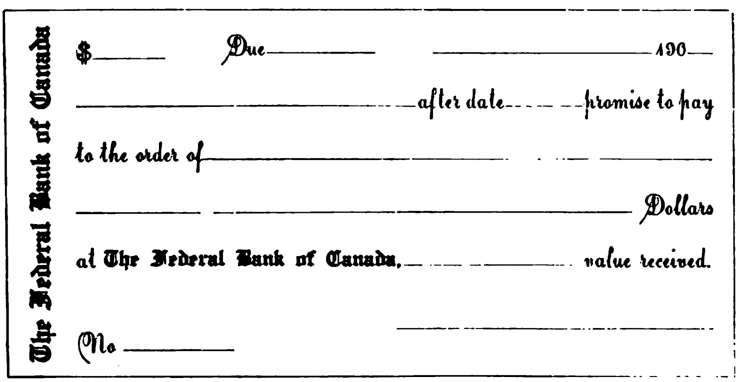
Loans are generally made on the floor of the exchange, where there is what is called the "money crowd" and money is offered and bid for in the same way as stocks. A broker acting as agent for the lender offers any part of, say, $500,000, and other brokers acting as agents for borrowers take all or some part of it at the prevailing rate.

The loan is then made up in the broker's office, with a list of the securities noted on the outside of the envelope, on which is also written the name of the borrower and the rate of interest to be paid. No loan is made on a margin of less than 20 per cent.; that is, a borrower must offer as collateral for a loan of $50,000 marketable securities having value of at least $60,000. When the contract and securities for the loan are presented by the broker to the lender, they must be entirely satisfactory or the loan can be refused.

Such loans are made from day to day, the borrower of today having the privilege of paying the loan any time before 1 o'clock tomorrow. The rate is subject to change daily. Occasionally, in times of panic, money becomes almost unobtainable and exorbitant rates prevail, sometimes reaching 100 per cent. per annum. At other times, money loans as low as 1 per cent., the average being about 4 per cent.

The legal rate of interest in New York is 6 per cent. (in Canada 5 per cent.), but this does not apply to call loans of $5,000 and upwards, and any rate agreed on by the borrower and lender may be paid. It is always necessary to carry a certain amount of ready money over and above the cash reserves and these loans answer that requirement.

In large Canadian cities like Montreal and Toronto, loans on stock-and-bond collaterals are not as available as in New York on account of the small stock market and the limited offerings of new call money by banks. Experience has shown that this method of lending in the United States and Canada is one of the safest, and millions are employed annually without the loss of a dollar. The securities on which the broker borrows belong to his customer and the broker is protected by a margin from his client. The bank, therefore, has the credit of the borrower, a margin of 20 per cent. over the amount loaned, and a note or hypothecation, which gives the bank the power of selling the securities deposited if the broker does not respond promptly when the loan is called. This is seldom resorted to, as, in case of the failure of the broker, the receiver or assignee, acting under the direction of a Court, is glad to pay a loan in order to receive the equity of 20 per cent. over the amount loaned, to be applied on the claims of the general creditors.


The Federal Bank of Canada

$______ Due ______ ______190__

______ after date ______ promise to pay

to the order of ______

______ Dollars

at The Federal Bank of Canada, ______ value received.

No. ______ ______

FIG. 31

16. A **promissory note** is an unconditional promise in writing made by one person to another signed by the maker, engaging to pay on demand or at a fixed future time a certain sum in money to a specified person or to bearer. Fig. 31.

17. A **draft** is an unconditional order in writing addressed by one person to another signed by the person giving it,

requiring the person to whom it is addressed to pay, on demand or at a fixed future time, a certain sum in money to a specified person or to bearer. Fig. 32.

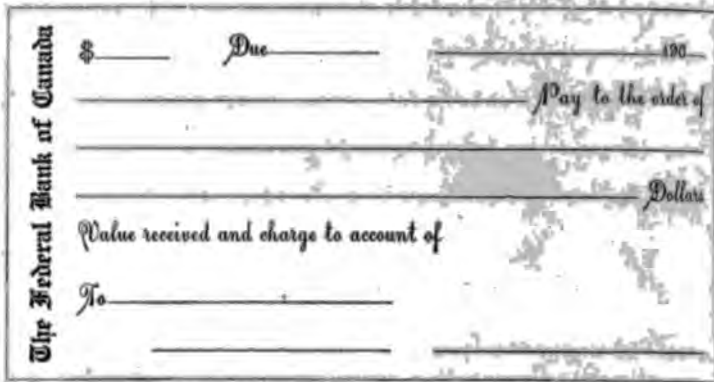

The Federal Bank of Canada
$ Due 190
Pay to the order of
Dollars
Value received and charge to account of
To

FIG. 32

18. Loans are bills that are accommodation for the customer; i. e., a customer's own note with or without an indorser would come under this heading.

DISCOUNT CLERK

19. The **discount clerk** has the following books in his charge: loan register, trade bills discounted register, trade bills discounted remitted register, trade bills discounted and loan diary, trade bills discounted remitted diary, discount blotter, collateral bill register, warehouse receipt register, collateral security register, past due bills register, liability register, call loan register.

Trade bills discounted are the notes and drafts payable in Toronto that have been discounted by the branch. **Trade bills discounted remitted** are those that are payable elsewhere.

Drafts and notes offered for discount are passed by the manager and handed to the discount clerk, who sees that they are in order; they are then sorted into loans, trade bills discounted, and trade bills remitted. One of the bank's

stamps, Fig. 33, and the due date is then placed on the face of each bill, and the trade bills discounted remitted are indorsed as in Fig. 34. The bills are then entered in their respective registers, Figs. 35 and 36, and the discounts and commissions are then deducted and the total proceeds entered in the discount blotter, Fig. 37. (The loan register and trade bills discounted register are identical.) They are then diaried under their respective due dates, the diaries, Figs. 38 and 39, having a page for each day of the year. The due date of a draft drawn at sight would be estimated, so many days to reach its place of destination plus 3 days of grace allowed in Canada. When loans or trade bills mature, the items for that day are handed to the note teller and the total of the day's bills in the diaries is credited to Loans or Trade Bills Discounted.

Trade bills discounted remitted returned unaccepted are marked off in the diary "Ret'd________190 ,"

FIG. 33

PAY TO THE ORDER OF
Any Bank or Banker.
The Federal Bank of Canada
TORONTO, Ont.

Manager

FIG. 34

TRADE BILLS

DATE 19—		No.	ON WHOSE ACCOUNT	PROMISSOR OR ACCEPTOR	DRAWER OR INDORSER	OTHER INDORSERS
July	7	503	C. J. Musson, Ltd.	Norman H. Jones		R. H. Lovell

DISCOUNTED

DATE		TERM	DUE		DAYS TO RUN	AMOUNT	DISCOUNT RATE	DISCOUNT AMOUNT	PROCEEDS	INITIALS	REMARKS
July	2	3 mos.	Oct.	5	93	100	6%	1.55	98.45		

Mar.	30	507	W. C. Lawson	Kissy Jones & Co.			Port Arthur

DISCOUNTED

DATE		TERM	DUE DATE		DAYS TO RUN	AMOUNT		DISCOUNT			EXCHANGE			PROCEEDS		INITIALS	REMARKS
								RATE	AMOUNT		RATE	AMOUNT					
Mar.	26	10 d/d	Apr.	8	9	38	76	7%		25	1/8		15	38	36		np

Note.—10 d/d means 10 days after date.

Fig. 36

credited to Trade Bills Discounted Remitted, and charged to the customers' accounts.

Trade bills discounted remitted payable at branches when due are debited to the branches and credited to Trade Bills Discounted Remitted. If unpaid, they are debited to the customer and credited to the branch.

Trade bills discounted remitted for others than branches, which have been accepted, are left in the diary until paid or returned unpaid. If paid, the draft received is handed to the teller together with a credit slip crediting Trade Bills Discounted Remitted; if unpaid, they are charged to the customer and credited to Trade Bills Discounted Remitted.

DISCOUNT BLOTTER

190							
Nov.	2	Jones Bros. & Co.		500			
				500		$1,000	

FIG. 37

It sometimes happens that when a bill is unpaid and the customer has no funds it is placed in Past Due Bills, entered in that register, Fig. 40, and charged to that account and a debit slip given to the note teller.

The discount diaries are balanced once a month by adding up the outstanding items on each page and placing these totals in the balance book one under the other. The total of these should agree with the balance as shown in the respective accounts in the general ledger.

On balance days, the discount blotter is ruled off and added up and the total ascertained. The three registers described

786	James Brown	Toronto	Jones & Smith		5000		

Fig. 38

No.	Promissor or Acceptor	Drawer or Indorser	To Whom Remitted	Amount	Fate: Date Prepaid or Returned	Fate: Amount Credited
509	W. J. Jones	F. B. James	London Merchants	500.		

Fig. 39

PAST DUE BILLS

WHEN CHARGED 190	No.	PROMISSOR	DRAWER OR INDORSER	ON WHOSE ACCOUNT	DUE DATE 190	AMOUNT
June 10	30	C. A. Anderson	G. J. Murphy	G. J. Murphy	June 10	275

PAST DUE BILLS

NOTARIAL CHARGES	WHEN PAID 190	BY WHOM	AMOUNT	INTEREST	REMARKS
	June 15	G. J. Murphy	275		

Fig. 40

COLLATERAL BILL REGISTER

Smith & Co's Collateral Notes

DATE 190		No.	NAME	ADDRESS	DATE OF BILL	TENOR	DUE	DR. AMOUNT	CR. AMOUNT	BALANCE
Apr.	1	1000	G. A. Crosby & Co.	Alton	Jan. 30	5 mo.	July 3	50		
		1	James Cullen	Ottawa	Mar. 19	30 d.	Apr. 21	62 35		112 35
	23		#1001	Paid					62 35	50

Fig. 41

are ruled off and added up in the same way and supposing the totals of these show as follows:

	Amount	Discount	Commission	Proceeds
Loans	10,000	150		9,850
Trade bills	1,000	25		975
Trade bills remitted . . .	12,000	200	1.25	11,798.75
	23,000	375	1.25	22,623.75

Entries will be made in the Journal as follows:

Dr. Loans		$10,000	
Trade bills discounted		1,000	
Trade bills discounted remitted		12,000	
Cr.	Discount account . . .		375.
	Inland Exchange account		1.25
	Current accounts		$22,623.75

20. Collateral bills consist of those drafts and notes held by customers and lodged by them with the bank as collateral security for the advances it has made to them. They are entered in the collateral bill register, Fig. 41, and are treated in the same way as remitted collections, and after being registered are entered under their due dates in the collection remitted diary already described. If the bills are paid, the amounts are credited to the customers' collateral accounts.

21. Warehouse receipts for goods, Fig. 42, are also taken as security and are entered in the warehouse receipt register, Fig. 43, together with fire-insurance on same. Other securities such as guarantees, bonds, etc. are entered in the collateral security register, Fig. 44.

22. Letters of hypothecation are taken for all securities lodged with the bank. Those for collateral bills are shown in Fig. 45, those for such collaterals as bonds, etc., in Fig. 46, and those for warehouse receipts, in Fig. 47.

23. The **liability ledger**, Fig. 48, shows the liabilities of each customer on loans and trade paper. A certain

number of pages is given to each account and each day it is posted from the discount registers. The trade bills are placed in the first columns and the loans in the second and the balance extended exactly like a current-account ledger. Each account is daily credited with the bills falling due as taken from the loan, trade bills, and trade bills remitted diaries. The result is that the clerk can tell at any time the total amount for which the customer is liable.

WAREHOUSE RECEIPT

Received in store from Grand Trunk Railway, in our Warehouse at 55 Mill St. Toronto

100 bags salt marked

to be delivered pursuant to the order of The Federal Bank of Canada, to be endorsed hereon.

This is to be regarded as a Receipt under the Provisions of Statute 53, Vic., Cap. 31, intituled "The Bank Act," and Acts amending the same.

____________ 190 John Smith & Co.

Sec. 75—3. Every one is guilty of a misdemeanor and liable to imprisonment for a term not exceeding two years who wilfully makes any false statement in any warehouse receipt, bill of lading, or security, as aforesaid. 4. Every one is guilty of a misdemeanor and liable to imprisonment for a term not exceeding two years, who, having possession or control of any goods, wares, and merchandise covered by any warehouse receipt, bill of lading, or security as aforesaid, and having knowledge of such receipt, bill of lading, or security, and without consent of the bank in writing, and before the advance, bill, note, or debt thereby secured has been duly paid, wilfully alienates or parts with any such goods, wares, or merchandise, or wilfully withholds from the bank possession thereof upon demand after default in payment of such advance, bill, note, or debt.

FIG. 42

24. Call loans are loans made to brokers, against the security of stocks that are readily salable. The bank may call for payment at any time. Jones Bros. apply for a loan of $5,000 against the security of 100 shares Canadian Pacific Railway stock, which is worth, say, $125 per share, or $12,500. They sign a call-loan letter, Fig. 49, by which they promise to pay $5,000 and interest and hypothecate the stock. The $5,000 is credited to Jones Bros. and debited to Call Loans. When the loan is called, the interest is made up and added to the loan and a cheque asked for. When payments are made, they are credited in the Credit column shown in Fig. 50.

WAREHOUSE RECEIPT REGISTER

J. M. Graham

[illegible]	[illegible]	[illegible]	[illegible]	Balance	Description of Collateral	Value	Insurance Company	Insurance Amount	Insurance Expiring
[illegible]	[illegible]	[illegible]		[illegible]	[illegible] barrels Castor Oil in [illegible] Warehouse	5000.	Aetna	5000.	May 15

Fig. 43

COLLATERAL SECURITIES

Date Received		Customer	Collateral	Initials	Surrendered	Receipt
[illegible]	[illegible]	Duckett & Co.	Guarantee signed by John & James Duckett for $5000.			
[illegible]	16	Holbrook & Co.	[illegible] shares Canadian Navigation Co. $[illegible] each		May 20	Holbrook & Co.

To

The Federal Bank of Canada

The undermentioned bills & notes

(and any renewals, extensions or substitutions therefor) is/are lodged with **The Federal Bank of Canada** as a general and continuing collateral security for the due payment of all advances made or to be made to me/us by the said Bank and of all my/our liabilities present and future to the said Bank, interest at the rate of ______ per cent. per annum computed in the said Bank's usual manner, costs and expenses; and the said Bank is hereby authorized to realize all such securities as aforesaid in such manner as it may elect and without notice to or any further consent of the undersigned in the event of any default in the payment of the said advances, liabilities, interest, costs and expenses, the proceeds of bills or notes discounted for me/us to be considered as advances within the meaning of this instrument.

DATE	No.	NAME	DUE DATE		AMOUNT		REMARKS
		Glasgow Bank London	Dec.	1/05	£600		
		John Jones	Nov.	15/05	£216	5/11	

Dated at ____________ this ______ day of ____________ 190____

John Smith & Co.

FIG. 45

To

The Federal Bank of Canada

The undermentioned ______________________________

(and any renewals, extensions or substitutions therefor) is/are lodged with **The Federal Bank of Canada** as a general and continuing collateral security for the due payment of all advances made to or to be made to me/us by the said Bank and of all my/our liabilities present and future to the said Bank, interest at the rate of ______ per cent. per annum computed in the said Bank's usual manner, costs and expenses; and the said Bank is hereby authorized to realize all such securities as aforesaid in such manner as it may elect and without notice to or any further consent of the undersigned in the event of any default in the payment of the said advances, liabilities, interest, costs and expenses, the proceeds of bills or notes discounted for me/us to be considered as advances within the meaning of this instrument.

Date		Particulars	Amount	

Dated at ______________ this ______ day of ______________ 190____

____

Fig. 46

HYPOTHECATION OF WAREHOUSE RECEIPTS TO SECURE BILLS OR NOTES

In consideration of **The Federal Bank of Canada** discounting the following bills or notes for the undersigned, viz.:

Describe the Bills or Notes. ____________________

the following Warehouse Receipts are hereby deposited with the said Bank as security for the payment at maturity of the said bills or notes or renewals thereof or substitutions therefor and interest thereon at the rate of__________per cent. per annum.

Describe Receipts and Mention the Goods. ____________________

$\frac{\text{I}}{\text{We}}$ agree to insure the said goods against loss or damage by fire to the extent of the advances thereon or to their full insurable value and to assign the policies therefor to the said Bank, or to have the loss made payable to it, at said Bank's option. If such insurance be not effected and maintained punctually the said Bank may insure and hold said goods as security for premiums paid and interest thereon.

Should the said bills or notes, renewals or substitutions, or any of them not be duly paid at maturity, the said Bank is hereby authorized to sell or dispose of the said goods, wares or merchandise, or any portion thereof, in such manner as the said Bank may elect, and without notice, protest or other proceedings, $\frac{\text{I}}{\text{we}}$ hereby waiving the same and any other notice provided for by section 78 of The Bank Act, or otherwise, and $\frac{\text{I}}{\text{we}}$ hereby consent to such sale without notice. At any such sale the said Bank shall have the right to purchase the whole or any portion of the said goods, wares and merchandise.

The whole without prejudice to the said Bank's legal rights and remedies upon the said Bills or Notes.

The proceeds of such sale or disposition are to be applied towards the payment of the said bills or notes, renewals or substitutions, interest, costs and expenses, and the surplus (if any) of such proceeds may be applied by the said Bank towards the payment of any other debt or liability due by $\frac{\text{me}}{\text{us}}$ to the said Bank.

The present market value of the said goods is__________________ which value $\frac{\text{I}}{\text{we}}$ engage to keep up and in the event of the margin of security afforded by the market value for the time being of the said goods at any time becoming less than________per cent. in excess of the amount for the time being of the advances thereon, interest and costs (whether by decline in the market value of the said goods as quoted in the ordinary newspaper reports or deterioration or otherwise) $\frac{\text{I}}{\text{we}}$ agree to make good the difference to the satisfaction of the said Bank forthwith either by depositing other approved security or paying off such part of the said advance as the said Bank may require; in default whereof the said advance and interest shall become immediately due and payable. The said goods are free from any mortgage, charge or lien.

*Dated at*______________this________day of____________190__

____

FIG. 47

NAME, BUSINESS
AND RESIDENCE

WHEN DISCOUNTED OR PAID 190	No.	OTHER NAME OR NAMES	RESIDENCE	DUE	BILLS DISCOUNTED			LOANS		
					DR.	CR.	BALANCE	DR.	CR.	BALANCE
Mar 4	218	Foley & Co.	Winnipeg	July 10 '05				2,500		2,500
9	220	J. T. Lundy	Toronto	Apl. 8 '06	253		253			
16	1	Foley & Co.	Winnipeg	July 17 '05				1,500		4,000
July 10		218	July 10						2,500	1,500

FIG. 48

CALL LOAN

____________________, 190__

The undersigned hereby acknowledge to have received from The Federal Bank of Canada,
____________________ Dollars
as an advance which sum is repayable________ and bears interest from this date at the rate of per cent. per annum.

The securities mentioned in the Schedule hereto have been transferred to the Bank or to one or more of its officers in trust, as collateral security for the payment of the said advance and interest, and the Bank is hereby authorized to sell and convey the said securities or any part thereof from time to time at such times and in such manner as the Bank shall elect as well as upon default in the payment of the said advance as in the event of the security depreciating in value to the extent of per cent. before the maturity of the said advance. The Bank may apply the proceeds of any such sale in or towards payment of the said advance and interest costs and expenses.

Any sale or conveyance hereunder may be made without notice to the undersigned the same hereby waiving all and every formality prescribed by law or otherwise in relation to such sale or conveyance. For the purpose of any sale and conveyance hereunder the Bank through any of its officers or employees is hereby authorized to fill up, execute, seal and deliver all necessary transfers and powers of attorney with and in such names and in such manner as may be thought best by the Bank.

The Bank is hereby authorized to collect and receive any dividends or interest payable in respect of the said securities and to apply the same in or towards payment of the said advance and interest costs and expenses.

The Bank is authorized to retain and use the said securities (or any substituted securities) as collateral for any other indebtedness, present or future, of the undersigned to the Bank.

Any security which the Bank may allow the undersigned to substitute for the scheduled securities (or any substituted security) shall be held by the Bank subject to the same terms and conditions and with the like powers and authorities as are herein expressed concerning the scheduled securities.

____________________ [SEAL]

THE SCHEDULE

Shares____	@ ____	$ ____
Shares____	@ ____	$ ____
Shares____	@ ____	$ ____
Shares____	@ ____	$ ____
Shares____	@ ____	$ ____

FIG. 49

TO

The Federal Bank of Canada

Call Loan

Hypothecation

____

______________________ BRANCH

The Federal Bank of Canada

BACK OF FIG. 49

Jones Bros.

DATE 190		DESCRIPTION		MARKET VALUE	DEBIT		CREDIT		BALANCE		DAYS	INTEREST	
Jan.	15	100 Can. Pac.	Ry. Co.	125	5,000				5,000				

Fig. 50

CANADIAN BANKING

(PART 3)

OPERATIONS—(Continued)

EXCHANGE CLERK

1. The **exchange clerk** makes out all deposit receipts, the drafts on branches and correspondents, keeps the necessary registers, and also has charge of letters of credit and exchange purchased. Fig. 1 is a draft on the Glasgow Bank, London, England; Fig. 2 is a draft on a Federal Bank branch; Fig. 3 is a deposit receipt; Fig. 4 is a draft register;

The Federal Bank of Canada

£__________ Stg. TORONTO, __________ 190__

On demand of this ORIGINAL of Exchange (Duplicate unpaid) pay to the order of __________

__________ Sterling.

Value received. For The Federal Bank of Canada

To THE GLASGOW BANK, __________ Manager
London, England __________ Accountant

NOTE.—These drafts are always issued in duplicate.

FIG. 1

Fig. 5 is the deposit receipt register. All requisitions for drafts and deposit receipts, Fig. 6, are handed to the

exchange clerk, who makes out the drafts and deposit receipts, enters them, as shown in the registers, and hands them, together with the registers, to the proper officers for

No. 19860

The Federal Bank of Canada

TORONTO, ________________ 190__

Pay to the order of ________________________ $________

____ *Dollars*

To **The Federal Bank of Canada,** ________________ *Manager*
Montreal, Que. ________________ *Accountant*

FIG. 2

signature, generally the manager and accountant; they then go to the paying teller. At the end of the day, advices of

DEPOSIT RECEIPT

The Federal Bank of Canada

$____________ **No.**____________

________________________ 190__

Received from ____

the sum of ____ **Dollars**

which amount will be accounted for to ________ **by this Bank and** will bear interest at the rate of ____ ________ **per cent. per annum** until further notice. Fifteen days' notice **of withdrawal to be** given and this Receipt to be surrendered **before repayment of** either Principal or Interest is made.

No interest will be allowed unless the money **remains in the** Bank ____________ Months.

This **receipt is not** negotiable.

For **The Federal Bank of Canada**

____
Manager

____
Accountant

FIG. 3

all drafts drawn, Fig. 2, are despatched to the **proper banks** or branches, except in the case of drafts **drawn in favor of** Canadian chartered banks, which are not **advised.**

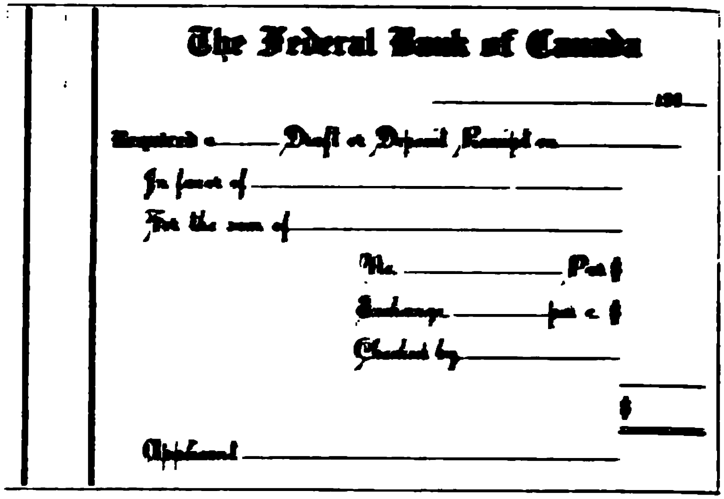
DATE	No.	PURCHASED BY	IN FAVOR OF	AMOUNT	RATE	PREMIUM	INITIALS	DATE ADVISED
190 Mar. 15	22751	John D. Jaspson	Fair Bros.	100	1/4	25		Mar. 15

FIG. 4

DEPOSIT RECEIPTS_ REGISTER

No.	DATE	NAME OF DEPOSITOR	ADDRESS	RATE	AMOUNT	INITIALS	WHEN PAID	INTEREST	REMARKS
14309	Feb. 15	James Smith	Toronto	3%	10,000	W. T. M.	Mar. 15 05	23 01	

FIG. 5



The Federal Bank of Canada

_______________190__

Required a _____ Draft or Deposit Receipt on _______________

In favor of _______________

For the sum of _______________

No. _______________ Per $

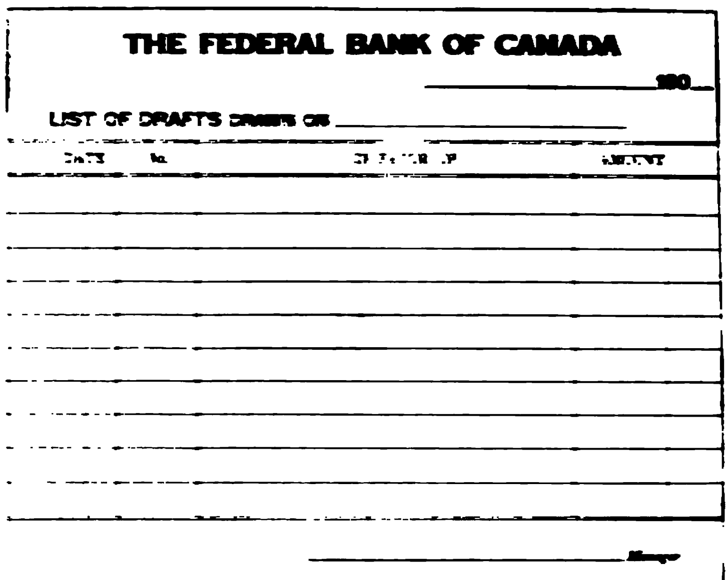
Exchange _______________ per c. $

Checked by _______________

$

Applicant _______________

Fig.



THE FEDERAL BANK OF CANADA

_______________190__

LIST OF DRAFTS DRAWN ON _______________

DATE	No.	IN FAVOR OF	AMOUNT

_______________ Manager

Fig.

STERLING BILLS OF EXCHANGE

DATE 190		No.	CUSTOMER	DRAWEE	ADDRESS	TERMS	AMOUNT			RATE	AMOUNT		
Mch.	15	2001	Smith & Co.	Jones & Co.	London Eng.	60 d/s	£500	2	5	9 5/8	$2,500	22	

PURCHASED REGISTER

SECURITY	VALUE	INSURANCE		
100 sacks Flour	$3,000	Aetna	$3,000	
p s/s "Virginian"		Marine		

Fig. 8

2. Deposit receipts usually bear interest at the rate of 3 per cent. per annum. Such deposits are payable only after notice, as shown in Fig. 3. A bank seldom enforces this provision, however, because when the deposit is withdrawn before the fixed time the depositor forfeits the interest. Deposit receipts issued by Canadian banks are "not negotiable" and always bear those words. To insure identification, a specimen of the signature of every person obtaining a deposit receipt should be placed on the counterfoil (stub) and a brief description of the person also entered thereon.

At the time of payment of a deposit receipt, the interest is added to the principal and the total sum, expressed in words, together with the date of payment, written in ink across the face, the signature of the manager and accountant being at the same time carefully defaced. The deposit receipt is then entered in the Paid column of the register and filed away in numerical order.

Calculations of interest are checked prior to the payment and the deposit receipt is compared with the stub, such comparison being attested by the initials of the person making it.

In the event of a deposit receipt being lost, before payment is made, it is usually required that the person furnish a bond guaranteed by two responsible persons. It is not necessary to issue a duplicate. A deposit receipt is not paid by another branch except by direction of the issuing branch.

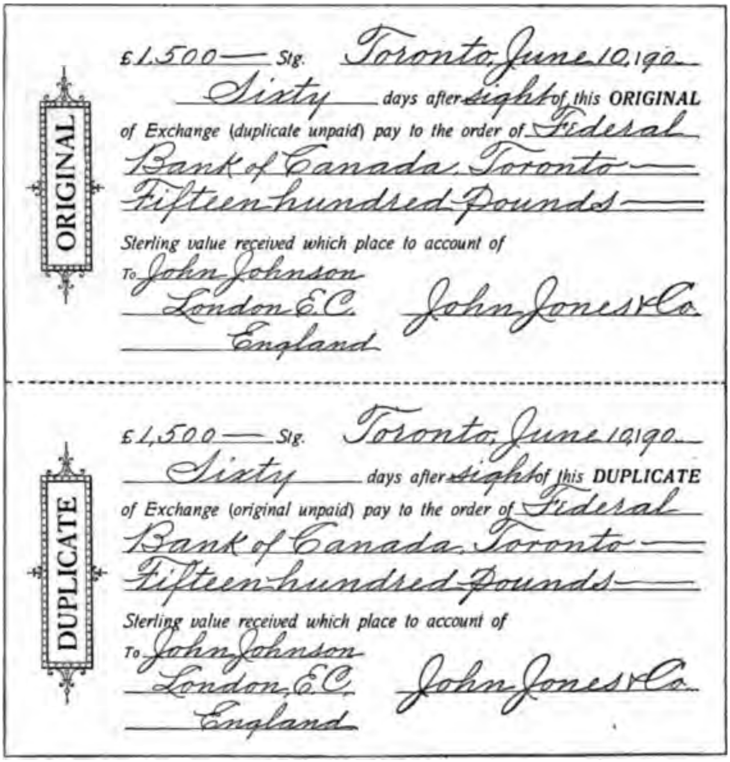
If, owing to some error, a receipt is canceled and therefore not issued, it should not be destroyed, but filed away in numerical order with the paid receipts.

Deposit receipts are balanced monthly in a book provided for the purpose; the number and amount of each receipt is entered, and the amounts added. The total should agree with the general ledger balance of deposit receipts.

3. The exchange clerk also has charge of the bills of exchange purchased register, Fig. 8.

A **bill of exchange** is a draft drawn on a firm in England, France, Germany, or other continental country, Fig. 9. Some have documents attached, others have not.

By documents is meant a complete set of shipping documents, with invoices, etc. These are attached to the draft and a slip is also appended, notifying the foreign correspondent whether the documents are to be surrendered on acceptance or payment of the draft. Specific instructions must also be written on the letter accompanying the draft. In


ORIGINAL

£1,500—— Stg. Toronto, June 10, 190

Sixty days after sight of this ORIGINAL of Exchange (duplicate unpaid) pay to the order of Federal Bank of Canada, Toronto

Fifteen hundred Pounds

Sterling value received which place to account of

To John Johnson
London E.C.
England

John Jones & Co.

DUPLICATE

£1,500—— Stg. Toronto, June 10, 190

Sixty days after sight of this DUPLICATE of Exchange (original unpaid) pay to the order of Federal Bank of Canada, Toronto

Fifteen hundred Pounds

Sterling value received which place to account of

To John Johnson
London, E.C.
England

John Jones & Co.

Fig. 9

handling documentary bills, care should always be taken to see that the drawer deposits with the bank a form of hypothecation, Fig. 10, by which the goods are pledged as collateral to the draft until the amount is paid. In order to save the trouble of making a hypothecation for each transaction, where many bills are purchased from a customer, it

THE MANAGER

BANK OF SCOTLAND

LONDON

190__

SIR:

We have this day sold to **The Federal Bank of Canada**, 60 d/s Bill of Exchange for £500. Sterling on Jones Bros. against a shipment of Wheat 2000 bushels per "Ceres" as specified in the Bill of Lading herewith. And we have agreed, and hereby agree with **The Federal Bank of Canada**, that if the said Bill of Exchange be accepted, and the acceptance be satisfactory to you, you shall give up the Bill of Lading to Jones Bros. without prejudice to your recourse against us if the Bill of Exchange be not paid at maturity. But if the said Bill be not accepted to your satisfaction or be not paid at maturity, you are hereby authorized to retain the Bill of Lading, and at any time, at your discretion, to place it, and the Merchandise therein specified, in the hands of your Broker, for sale, and after deducting all brokerage and expense, including commissions for sale and guarantee, to apply the net proceeds to, or towards payment of the Bill of Exchange, accounting to **The Federal Bank of Canada** for the surplus, if any; if, however, the net proceeds should be insufficient, we hereby agree to pay the amount of the deficiency to **The Federal Bank of Canada**, on demand. And further, we agree that if required the Policy of Marine Insurance on the Merchandise specified in the Bill of Lading shall be assigned to you, and in default of such assignment, you are authorized to effect a special insurance, for the cost of which you shall have a special lien on the Merchandise and the proceeds of its sale.

(If the documents hereby hypothecated are surrendered against payment of this bill before maturity, the allowance of discount to the acceptor is to be at the rate of one-half per cent. per annum above the advertised rate of interest for short deposits allowed by the leading Joint Stock Banks in London.)

Yours respectfully,

John Smith & Co.

THE MANAGER

BANK OF SCOTLAND

LONDON

190__

SIR:

We have this day sold to **The Federal Bank of Canada**, 60 d/s Bill of Exchange for £500. Sterling, on Jones Bros. against a shipment of Wheat 2000 bushels per "Ceres" as specified in the Bill of Lading herewith. And we have agreed, and hereby agree with **The Federal Bank of Canada**, that if the said Bill of Exchange be accepted, and the acceptance be satisfactory to you, you shall give up the Bill of Lading to Jones Bros without prejudice to your recourse against us if the Bill of Exchange be not paid at maturity. But if the said Bill be not accepted to your satisfaction or be not paid at maturity, you are hereby authorised to retain the Bill of Lading, and at any time, at your discretion, to place it, and the Merchandise therein specified, in the hands of your Broker, for sale, and after deducting all brokerage and expenses, including commissions for sale and guarantee, to apply the net proceeds to, or towards payment of the Bill of Exchange, accounting to **The Federal Bank of Canada** for the surplus, if any; if, however, the net proceeds should be insufficient, we hereby agree to pay the amount of the deficiency to **The Federal Bank of Canada**, on demand. And further, we agree that if, required the Policy of Marine Insurance on the Merchandise specified in the Bill of Lading shall be assigned to you, and in default of such assignment, you are authorized to effect a special insurance, for the cost of which you shall have a special lien on the Merchandise and the proceeds of its sale.

(If the documents hereby hypothecated are surrendered against payment of this bill before maturity, the allowance of discount to the acceptor is to be at the rate of one-half per cent. per annum above the advertised rate of interest for short deposits allowed by the leading Joint Stock Banks in London.)

Yours respectfully,

John Smith & Co.

FIG. 10

No. ______

The Federal Bank of Canada

To the Manager, ______________________ 190__

The Bank of Scotland,

London, England.

Dear Sir,

We hereby authorize *Messrs. Peters & Co.* of *Glasgow* or any other parties whose drafts you may be directed by the written order of the said *Peters & Co.* to accept under this credit, to value on you at *60 days'* sight, for account of *John Smith & Co* of *Toronto* for any sum or sums not exceeding in all *Six hundred* ______ Pounds Sterling, to be used as *they* may direct for the payment of *80% of* the Invoice cost of ______ *Salt* ______ to be purchased for account of *Messrs. John Smith & Co.* and to be shipped to *Toronto by Steamer & Rail*

The shipments must be completed and the bills drawn on or before ______ and advice thereof given to you in original and duplicate, such advice to be accompanied by Bill of Lading filled up to order of The Federal Bank of Canada, with abstract of invoice indorsed thereon, for the property shipped as above. All the Bills of Lading issued, except the one sent to us by the vessel carrying the cargo and the one retained by the Captain of the said vessel, are to be forwarded direct to you. Original invoice to be forwarded to us, properly certified.

All bills drawn under this credit to state on their face that they are drawn under The Federal Bank of Canada, *Toronto* Credit No. ______

And we hereby agree with the drawers, indorsers, and bona-fide holders of Bills drawn in compliance with the terms of this Credit, that the same shall be duly honored on presentation at your office in London. Insurance in order at *Glasgow*

For The Federal Bank of Canada.

For £ *600/-* ______________________ Manager

______________________ Accountant

FIG. 11 (a)

190

To

The Federal Bank of Canada

Gentlemen:

Having received from you the Letter of Credit of which a true copy is on the other side we *hereby agree to its terms, and in consideration thereof* we *agree with you to provide in twenty days previous to the maturity of the Bills drawn in virtue thereof, sufficient funds in Cash, or in bills on London, satisfactory to you, at not exceeding sixty days' sight, and indorsed by* us *to meet the payment of the same with* (1) one *per cent. commission and interest as hereinafter provided, and* we *undertake to insure at* our *expense, for your benefit, against risk of fire or sea, all property purchased or shipped pursuant to said Letter of Credit, in Companies satisfactory to you.*

we *agree that all property which shall be purchased or shipped under the said Credit and in compliance with the terms thereof, the Bills of Lading thereof, the Policies of Insurance thereon, and the whole of the proceeds thereof, shall be and they are hereby pledged and hypothecated to you as collateral security for the payment of the Bills referred to, and for the payment of all sums that may be due or that may become due on said Bills, or otherwise, by* us *to* **The Federal Bank of Canada,** *and shall be held subject to your order on demand, with* our *authority to take possession and dispose of the same at your discretion for your security or reimbursement, at public or private sale, without demand or notice, and to charge all expenses, including commissions for sale and guarantee.*

Should the market value of said merchandise, either before or after its arrival, fall so that in your opinion the net proceeds thereof (all expenses, freights, duties, etc., being deducted) would be insufficient to cover your advances thereagainst with commission and interest we *further agree to give you on demand any additional security you may require, and in default thereof you shall be entitled and you are hereby authorized to sell such merchandise forthwith, or to sell "to arrive" irrespective of the maturity of the acceptances under this Credit* we *being held responsible to you for any deficit which* we *bind and oblige* ourselves *to pay you in Cash on demand, and further pledge said goods and the proceeds thereof as security for any other indebtedness, direct or indirect, which you now have or may hereafter claim against* us

It is understood that in all payments made by us *to you in the Dominion, the Pound Sterling shall be calculated at the current rate of exchange for Bankers' Bills in* ______ *on London existing at the time of settlement, and that interest shall be charged at the rate of* ______ *per cent. per annum, or at the current Bank of England rate in London if above* ______ *per cent.*

Should we *anticipate the payment of any portion of the amount payable, interest is to be allowed at the rate of one per cent less than the current Bank of England rate.*

In case we *should hereafter desire to have this credit confirmed, altered, or extended by cable (which will be at* our *expense and risk),* we *hereby agree to hold you harmless from responsibility which may arise through errors in cabling, whether on the part of yourselves or your Agents, here or elsewhere, or on the part of the cable companies.*

This obligation is to continue in force and to be applicable to all transactions, notwithstanding any change in the composition of the company, firm or firms, parties to this contract, or in the user of this credit, whether such change shall arise from the accession of one or more new partners, or from the death or secession of any partner or partners, or any other cause whatsoever

John Smith & Co.

FIG. 11 (*b*)

is quite common to take a general hypothecation form, which pledges goods to any and all drafts that might be purchased by the bank. The manager or accountant quotes the purchasing rate and the clerk, through the journal, credits the customer with the proceeds and debits the bank's agent in London, Paris, or Hamburg. If the exchange is received from a branch, the proceeds are credited to the branch and debited to the agent.

A **sterling liability ledger** is kept for the exchange transactions of customers. This book is similar to Fig. 48, *Canadian Banking*, Part 2, except that the Loan Columns are omitted, and it is kept in exactly the same manner.

4. **Letters of credit** are written authorizations from one bank to another or others to pay a certain person a sum

TRUST RECEIPT

To be attached to the Hypothecation by the
undersigned to the Bank dated__________190__

Received from The Federal Bank of Canada

____

____

and__________hereby undertake to sell the property therein specified, for account of the said Bank, and collect the proceeds of the sale or sales thereof, and deposit the same immediately on receipt thereof in the said Bank, at__________to the credit of__________hereby acknowledging__________to be Trustee__________of the said property for the said Bank.

Dated at__________the__________A. D., 190__

____

FIG. 12

of money on certain conditions. They are divided into three classes: *commercial*, *circular*, and *correspondent*. The **commercial letter of credit**, Fig. 11, is used to pay for importations of iron, cotton, fruit, etc. The wording of the letter explains it. Drafts against these are accompanied by bills of lading and marine insurance on goods. On receipt of these, the customer is notified and the goods are

Circular Letter of Credit

No.________

ADDRESSED TO THE CORRESPONDENTS

OF

The Federal Bank of Canada

£ New York,________________190__

Gentlemen,

We beg to introduce and to commend to your kind attention M ______________________________ *to whom you will please furnish funds in sums as required up to the aggregate amount of* ____________________ **Pounds Sterling** *against the Holder's sight drafts on* **Parr's Bank Limited, London,** *each draft to be plainly marked as* "**drawn under F. Bk. of C.'s Letter of Credit No.**________."

*We request you to buy such drafts at the rate at which you purchase demand drafts on London, and we engage that these drafts will meet with due honor in London if negotiated not later than*________________*190* , *under the condition that the amounts thus negotiated have been inscribed on the back of this Letter. The Letter itself must be attached to the draft which exhausts the Credit.*

Please see to it that the drafts be signed in your presence, and carefully compare the signature with the one affixed to the **Letter of Introduction** *issued in conjunction with this Letter of Credit.*

We are, Gentlemen, your obedient Servants

____

FIG. 13 (a)

Bankers are requested to inscribe payments in running order on this page.

Before inscribing please ascertain the exact amount the holder wishes to draw, as subsequent alterations, erasures, or cancelations cannot be admitted.

Date When Paid	By Whom Paid	Name of Town	Amount Paid Expressed in Words	Amount in Figures
				£
				£
				£
				£
				£
				£
				£
				£
				£
				£
				£
				£
				£
				£
				£

Fig. 13 (b)

surrendered to him on trust receipt, Fig. 12. When the acceptance under the credit matures, payment is made at the rate of exchange for the day, plus commission.

The Federal Bank of Canada

No. 42 Toronto, Canada, August 1st 190_

To The Glasgow Bank or any agent or branch
London, E. C.
England.

Gentlemen:

Mr. Fred'k A. James the bearer of this Letter of Credit is authorized to draw on you for £100-(say One hundred pounds, sterling) to which extent we hereby engage to honour his demand drafts, if drawn on or before November 1st 190_

All drafts drawn must bear the number, No. 42 and date of this credit; the amount of each draft must be indorsed hereon and this letter itself canceled and attached to the final draft.

A specimen of Mr. Fred'k A. James' signature is appended to the letter of introduction of which he is the bearer

Your obedient Servant
John Smith
Manager

E. Anderson
Accountant

Fig. 14 (a)

5. Circular and correspondent letters of credit are nearly identical except that the first, Fig. 13, is addressed to

all the banks mentioned in the letter of introduction authorizing them to pay all drafts drawn against the bank (named) in London and can be drawn against at all the principal cities in the world, while the latter, Fig. 14, being addressed

AMOUNTS DRAWN UNDER WITHIN CREDIT

PLACE WHERE DRAWN	DATE		AMOUNT				BY WHOM NEGOTIATED
			IN WORDS	IN FIGURES			
London	Aug.	15	Ten pounds	£10	–	–	The Glasgow Bank

FIG. 14 (b)

to one or more correspondents in particular is presented only at the office of the correspondent named.

The manager authorizes letters of credit and if not sold for cash he decides what collateral if any shall be taken.

COMMERCIAL LETTER OF CREDIT #101 ON GLASGOW BANK, LONDON

FAVOR Smith & Co. London

CUSTOMER Wood & Co. £5000 PURCHASE Cement

DATE 190	PAYMENTS DR.	PAYMENTS CR.	DATE PAID	
Aug 1		£1000	Nov 1	Paid @ 9 7/8 + 1/8 comm = $10,000

Fig. 15

He may take the purchaser's guarantee or some collateral, in which case payment for each draft drawn against the letter is required, immediately on its receipt, at the rate of exchange for the day, plus commission.

A letter-of-credit register; Fig. 15, is kept, with a page for each customer and particulars inserted of amount of credit and each draft drawn against same. These payments are credited as follows: Commercial and correspondent credits, to the bank to which the credit is addressed. Circular credits, to the bank on which drafts under the credit are drawn.

JOURNAL

6. All entries might go through the teller's hands and then through the cash book, but it is thought advisable to divide up

January 18th 190

Call Loans	Dr.		5000	
Isaac Smith #10		5000		
Current Accounts	Cr.			5000
Isaac Smith		5000		
Current Accounts	Dr.		500	
Isaac Smith		500		
Interest on call loan #10				
Interest Account	Cr.	500		
Call Loans				500

Fig. 16

the work and put some entries through the cash book and some through the journal. **Journal entries** consist of entries for which cash or its equivalent is not paid, Fig. 16. For example, a customer makes a call loan, which is credited to his account. As there is no cash or its equivalent in this transaction the entry is made in the journal. Interest on a call loan not having been paid in cash or its equivalent, the entry is made in the journal, debiting the borrower and crediting interest account.

Cash-book entries consist of credits for which cash or its equivalent has been paid and an occasional entry that the accountant of the branch decides for some reason to put through the cash book.

CASH-BOOK WRITER

7. The books in charge of the **cash-book writer** are the following: General cash book, sundry cash-item register, and branch cash-item register. Fig. 17 shows a page of the general cash book. This book groups together under different headings all entries coming through the tellers; consequently, after balancing the clearing-house parcels, the cash-book clerk collects the tellers' entries and sorts them as follows: cheques on the branch, cheques on other branches, cheques and drafts on outside points, drafts on points where the Federal Bank has branches, branch drafts on Toronto, customers' deposit slips, head-office entries, and sundry entries. He gets cheques on the branch accepted by the ledger keeper and then enters them on the paid side under Current Accounts and drafts drawn by other branches under Head Office. Deposits having been entered in the ledger by the ledger keeper are entered on the received side of the cash book under Deposits.

Cheques and drafts on outside points go first into the sundry cash-item register, Fig. 18, and then they are entered separately in the general cash book under Bank-Collection Account. Cheques on branches are entered in the branch cash-item register, which is ruled the same as Fig. 18, and

GENERAL CASH BOOK

March 15th 190

RECEIVED — DEPOSITS				PAID — CHEQUES		
Crookall & Co.		157.15		Clearing House Cheques	150.00	
Quickley & Co.		65.21		P.A. Small & Co.	40	
Waddell & Co.		119.50		J.M. Smith & Co.	20	
Hamilton & Co.		1049.23		J.V. Poole & Co.	60	
W.H. Cross		24.75		Lockerby Bros	70	
Hoover Bros.	15th	66.51		Accident Ins Co.	80	
Young & Co.		248		Crookall & Co.	190.25	
Cowan & Co.	15	65.34		Crookall	150.45	
" "	15	85.33	1,881.02	O'Keefe	35.43	
Head Office				Smith	100	
Anderson draft Montreal		40.25		"	90	
Hughson " Halifax	15	60.40		Robertson & Son	29.73	
" "	15	90.21		Hood	49.23	1591.09
Gibb " New York	15	60.25				
Smith " Vancouver	1.26	12.69		Head Office		
" " "		50		Cheque New York 25th 40		
" " "		40		" Charlottetown 25th 25		

Clearing House	30925		" "	10,000		
Local Bills Discounted			" "	5,000	30925	
Discounts per Diary	245	79	Charges			
Commission Acct. 1.86 50¢ 45¢ 40¢	3	21	Clearing Office			1
	35,110	32			58,926	09
Balance Forward			Paying Teller	30391.82		
Paying Teller 31,225			Receiving "	10171.53		
Receiving " 25,000			Note "	4809.88	45,373	23
Note " 12,964	69,189					
	$104,299	32			$104,299	32

[illegible]	[illegible]		[illegible]
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]		[illegible]
[illegible]			[illegible]
[illegible]			[illegible]
[illegible]			[illegible]
[illegible]	[illegible]		[illegible]
	[illegible]		

[illegible]

DATE 190		No.	ON WHOSE ACCOUNT	DRAWER	OTHER INDORSERS
Dec.	14	500	Smith & Jones	John McKim	Smith & Jones
		1	C. C. Jones	J. Lawrence	J. C. Calder

This is the Sundry Cash Item Register. The sundry items are shown, one under the other, and then entered separately in the General Cash Book.

Drafts on points where the Federal Bank has no branches and cheques and drafts on outside points are entered in Sundry Cash Item Register.

In the Branch Cash Item Register, only cheques on branches are entered.

REGISTER

DRAWEE	WHERE PAYABLE	WHERE SENT	DATE 190	TERM	AMOUNT	COMMISSION	TOTAL	INITIALS
Bank of Toronto	New York	New York	Dec. 12	D	40.	25		
Royal	Charlottetown	C'town	10	D	25.	25		

Fig. 18

the cheques for the different branches are debited on the paid side of the cash book under Head Office as follows:

New York	$40.00
Charlottetown	25.00

Drafts payable at places where the Federal Bank has branches are debited singly to Head Office after being entered in sundry cash-item register. Should there be more than one cheque for the same branch, the amounts are added together and the total debited in the cash book in the same manner as a single cheque on a branch.

Other debit and credit entries for head office are entered on the paid side and received side under Head Office.

All expenses of a branch are debited to Charges account on a debit slip, entered in the paid side of the cash book and from there posted to Charges account in the general ledger. The vouchers are initialed by the manager or accountant before they are paid and they should be receipted by the party who receives the money. The charges vouchers are sent to the general manager with the monthly balance sheet; and after examination they are returned to be filed away separately from the other vouchers.

After the sundry and all other entries have been made in the general cash book, the balance from the day before is brought forwards, and the totals extended and then added. The tellers' balances taken from their blotters should then be entered and should make the two sides agree.

LEDGER KEEPER

8. The **ledger keeper** has charge of the following books: current-account ledger, savings-department ledger, current-account balance book, and savings-department balance book. Fig. 19 shows a page in the current-account ledger. The active accounts, principally those of persons or firms in business, are kept in this book. Each account is assigned a page or more, and the pages are arranged, as far as possible, in alphabetical order. When an account is opened, the full name

DATE 190		PARTICULARS	DR.	CR.	DR. OR CR.	BALANCE	DAYS	INTEREST	
Oct.	17	D		1 000	Cr.	1 000			
	18	D		2 000		3 000			
		1	500						
	22	2	1 000			1 500			
		3	1 500						
		4	4 000		Dr.	4 000	2	8 000	
	24	7	1 000			5 000	3	15 000	
	27	8	6 000			11 000	4	44 000	
	31	D		3 000		8 000	2	16 000	
Nov.	2	Disc.		1 000		7 000	59	413 000	
Dec.	31	Int. to date	81 53			7 081 53			
								496 000	
								$81 53	interest

Fig. 19

Note.—Interest at the rate of 6 per cent. per annum is charged on all debit balances. $81.53 is the total interest on the debit balances and is obtained as follows: $\$496{,}000 \times .06 \div 365 = \$81.53$. This will be understood from the fact that the first debit balance, which is $4,000, bears interest for 2 days, October 22 to 24. This is equivalent to interest for 1 day on $8,000. So, also, the interest on $5,000 for 3 days is equivalent to the interest on $15,000 for 1 day, etc. The total interest on the debit balances to December 31, therefore, is equivalent to the interest on $496,000 for 1 day.

and address of the customer is written at the head of the account in the ledger, together with such other information as is likely to be valuable or useful. For example, if the account is that of a firm, the names of the partners and special partners, the particulars of the partnership and the date when it expires should be recorded; if a trust estate, the names of the trustees should be given; if a farmer, his lot, or concession, or township, as well as his post-office address, should be mentioned; and in the case of corporations, the names of the parties authorized to sign cheques must be given. Where a power-of-attorney or a by-law authorizing officers of an incorporated company to sign for the company is deposited with the bank, such facts should also be entered in the ledger, stating date when granted, name of the party authorized to sign, and extent of the power and limitations, if any, placed on its use. This information should be entered at the head of the account by the ledger keeper and initialed by the accountant, who should also cancel it in the event of the power being revoked. The heading that appears on the deposit slip of a joint account, such as "John Smith and Jane Smith or either of them," must be copied in the ledger verbatim when the account is opened, and each entry should show clearly to whose credit the deposit is made.

The entries in the current-account ledger are made from the deposit slips, from the cheques from the tellers, and from entries in the journal and discount blotter. After the deposit slips are credited and the cheques charged to the accounts, they go to the inner office, where the cheques after they are canceled should be kept sorted according to the account, a file with cardboard partitions being generally used for this purpose.

9. It is a common practice for banks to certify cheques for their customers when requested to do so. Such cheques are presented at the ledger wicket to the ledger keeper, who stamps the word "Certified," Fig. 20, and writes his initials underneath. The amount is then debited to the account of the drawer the same as a paid cheque and the cheque is

handed to the customer and becomes an obligation of the bank. It is not the custom in England to certify cheques.

CERTIFIED

The Federal Bank

APRIL 7, 190

of Canada

TORONTO, ONT.

FIG. 20

NO. 616 Archibald John Brown
Clerk
399 King St., W.

DATE		PARTICULARS	DR.	CR.	INITIALS	BALANCE	INTEREST
190							
Nov.	1	D		700	C	700	
	12	1	100		C	600	N 1 47
	17	D		300	C	900	
Dec.	1	D		300	C	1 200	
	15	2	700		C	500	D 1 27
	31	D		150	C	650	
		Int to date		2 74		652 74	2 74

FIG. 21

The journal entries are posted the same way as cheques and deposits; i. e., debit entries go in the debit column and credit entries in the credit column. The proceeds of all discounts

are credited to their respective accounts from the discount blotter.

Interest is sometimes allowed on credit balances and is always charged on debit balances. It is calculated as shown in Fig. 19, and the amount credited or debited through the journal.

Fig. 21 shows a page of the savings-bank ledger. Deposits that bear interest, and on which few cheques are drawn, are

Entered,

Ledger Keeper.

The Federal Bank of Canada

SAVINGS DEPARTMENT

Account No. ______

______ 190__

Received from The Federal Bank of Canada,

the sum of ______ /100 Dollars

Principal, $ ______

Interest, $ ______

$ ______ ______

FIG. 22

kept in this book. Deposits come through this ledger on deposit slips and are entered in exactly the same manner as in the current accounts. The withdrawal slip, Fig. 22, is the

No. ______

Account No. ______ Toronto, ______ 190__

The Federal Bank of Canada

TORONTO BRANCH

Pay Savings Department or Bearer

______ /100 Dollars

$ ______ ______

FIG. 23

usual mode of checking money from the savings accounts and this slip is entered in the debit column of the account and handed to the paying teller for payment. Savings

eques, Fig. 23, payable to outsiders are occasionally esented and these are treated like current-account cheques. At the end of the month, current-account pass books are ought in by the customers to be balanced; and this is done making an exact copy in them of the ledger account and en adding up the debit and credit columns to see if the

CURRENT ACCOUNT BALANCE BOOK

LIO O.	NAME OF ACCOUNT	Mar. 31 DR.		CR.					
	Smith & Co.			50					
				25					
				40					
		10	30						
		10	30	115					
				10	30				
				104	70				
	Outstanding Cheques								
	Smith & Co. $40.			40					
		Bal.	$	144	70				

FIG. 24

ference agrees with the balance shown. Savings-bank ss books are not balanced at the end of each month.

Each morning the current-account and savings-bank entries the day before in the general cash-book, journal, and dis- unt blotter are called off with the accounts in the ledgers d a tick placed in the current-account ledger opposite the lount and an initial in the savings-bank ledger.

The ledger is balanced twice a month on the fifteenth and last day. This is done by taking the balances down in the balance book, Fig. 24. The columns are then added and the difference between the two ascertained. The outstanding cheques (those debit entries that are unticked), are then added to the difference (or balance) if a credit, or deducted from the balance, if a debit, and the result or balance should agree with the balance as shown in the general ledger.

It occasionally happens that a certified cheque is not presented the same day that it is certified. The result of this is that the ledger, if balanced on the same day, shows a debit in an account, which is not in the general cash book, and the ledger entry of this certified cheque must be taken into account when balancing.

The savings-department ledger is balanced in exactly the same manner, but since all the accounts of customers are credit accounts, the debit column may be omitted.

While it is to the credit of the banking fraternity that there are very few defalcations, it is advisable that banks take every precaution against embezzlement. For this reason in some banks ledger keepers occasionally change places, or their duties may be temporarily assigned to others, if the number of officers at a bank renders such an arrangement possible.

GENERAL-LEDGER KEEPER

10. The **general-ledger keeper** has charge of the general ledger. The totals from the general cash book and journal are assembled in this ledger, a sample page of which is shown in Fig. 25. A certain number of pages are apportioned to each account. The names of each account are shown in the general balance sheet, Fig. 26. Since the general cash book is balanced each day, and since there is a debit for each credit in the journal, it consequently follows that if the figures in these two books are posted in the proper columns in the ledger and the balances extended and taken down on the balance sheet, the sides should agree.

LIST OF F

P. D. B. No.	Promissor or Acceptor	Drawer or Indorser	For Whom Discounted	Due Date

Less Partial Payments, $ Appropriations, $

Balance per Balance Sheet

Amount specially secured

Amount not specially secured

Certified,

OVERDRAWN

NAME	Amount	Rate of Int.

'AST DUE BILLS

Original Amount with Notarial Costs		Partial Payments or Appropriations		Amount specially secured		Probable Loss		Amount considered good		REMARKS

Accountant

CURRENT ACCOUNTS

Particulars of Collateral Security	REMARKS.

'IG. 26 (b)

In nearly all ledger accounts, the totals only are posted; i. e., if in the cash book there are four items credited to current accounts, only the total of these goes into the ledger. At stated times the ledger is balanced.

The following explanations of the different headings in the balance sheet are here given:

All branch entries go into this head-office account and the balance is the amount owing by head office to the branch or to head office by the branch. Full lists are sent to the head office daily and they look after adjusting the debits and credits

CURRENT ACCOUNTS

DATE 190		PARTICULARS	DR.	CR.	DR. OR CR.	BALANCE	
Jan.	3			115 000	Cr		
			13 000			102 000	
	4			109		211 000	
			170 000			41 000	
	5			179		220 000	
			37 000			183 000	

FIG. 25

between branches. Tellers' cash balances are as per general cash book.

Direct accounts with correspondents. The Federal Bank, Toronto, sends copies of the accounts and receives them. The entries in the accounts received are ticked off with the accounts in the general ledger, and the outstanding entries are looked into; this may reveal the fact that an item sent to a correspondent for collection, and which matured 10 days before, had not been credited in that correspondent's copy of account. Toronto office will at once write asking it why not and either get the item back or have it credited if paid.

Loans and discounts have been explained under discount clerk. Current accounts overdrawn are taken from the current-account ledger. Bank premises, mortgages on real

is shown in Fig. 27. The letters written to each branch are numbered consecutively and acknowledgment is made by date and number of the letter last received from that branch.

A record of the dates and number of all Federal Bank letters received and sent is kept on a form such as shown in

Agency of

The Federal Bank of Canada

Toronto, ____________ 190__

The Manager, No. ________

____________ Branch.

Dear Sir:

We wrote you last on the ________ and have since received your letter of ________ No. ____

We enclose:

Cash items per list No. ____ $ ________

FIG. 27

Fig. 28. One side of the form is for letters received and the other for letters despatched. Both sides have a space for the names of the branches and columns for the days of the month, and each branch is given a line on both sides of the register. When a letter is received from a branch, the number

FEDERAL BANK BRANCH

LETTERS RECEIVED

	S							S							S							S							S		
October	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Arnprior		52								55								54						55							
Alexandria		61			62					63						66										65					
Carleton Place		48				49						50						51						52							
Kemptville		56					57							58							59										

FEDERAL BANK BRANCH

LETTERS DESPATCHED

	S							S							S							S							S		
October	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Alexandria		34			35		36						37					38	39	40				41							
Arnprior			12									13						14													
Carleton Place				18					19																	20					
Kemptville		25							26	27										28											

Fig. 28 (b)

is entered in red ink on the received side of the register on the line with the name of the branch and under the date of its receipt (in the illustration the numbers are given in black ink). When it is acknowledged, the red-ink entry is crossed off in black ink. Letters sent out are recorded in the despatched side of the register by entering their numbers in red ink opposite the name of the branch addressed, and on receipt of its acknowledgment this entry is crossed off in black ink as shown. When letters have been answered, they are filed numerically according to branches.

12. So far as possible, some member of the staff should be assigned to receive letters from the post office. This

Letters Received

DATE RECEIVED 190		NUMBER	NAME	ADDRESS	DATE OR NUMBER		INITIALS	WHEN ACKNOWLEDGED	

FIG. 29

person should place the letters on the manager's desk with a memorandum of the number of letters the package contains, so that when the manager counts them he may feel assured that he has received them practically from the officer direct. They will then be entered in the general letters received register, Fig. 29, and may be handed to the accountant for his attention. The register is provided with a column for the initials of the officer whose duty it is to file the correspondence, and this is closely watched to see that every letter is receipted for. Letters received from the general manager are filed separately from the general correspondence so that they are accessible at a moment's notice. All registered letters are entered in the register according to the post-office

number, by the person in charge of the mail, before they are handed to the manager.

13. A copy is made of all letters to be sent out and a record of them is made in the general register of letters despatched, shown in Fig. 30. This register is provided with a column in which the postage on each letter is entered, and this is proved at least once a month by the accountant to see that the sums debited to postage have been properly expended. It is advisable that the person who mails the letters check them with the entries in the register and initial each one so that he may be able to testify that it was mailed. It is well also to

LETTERS DESPATCHED

DATE		NAME	ADDRESS	PARTICULARS (No. of letters, when mailed, etc.)	POSTAGE		WHEN ACKNOWLEDGED	

FIG. 30

make a note under the initials of the exact time and the post office where (when there is more than one) the mail is posted.

The person whose duty it is to see that letters sent are properly sealed should place his initials on the flap of every envelope, as an evidence that his duty was performed. Care should be taken to have sufficient postage on foreign letters, as delay is frequently caused by not fully prepaying them and double postage is charged at the place where the letter is sent. The best plan is to weigh each letter, and some one should check the amount of postage and certify that it was sufficient, by placing his initials on the corner of the envelope.

Where the manager submits the application of a borrower for a loan or discount, a copy of the original letter of application is sent, together with any information regarding the

borrower, to the general manager's office, where it is kept on file.

It is a common courtesy among banks to give certain information regarding commercial, manufacturing, and other houses when asked for. Replies to such letters should be so carefully worded that they will not compromise the bank, and a statement should be added that the information is given in confidence and without prejudice.

14. Telegrams and Cipher Codes.—In a Canadian bank, there is a considerable amount of telegraphing regarding instructions, payments, etc., and all banks have private codes. Some of the larger banks have codes so arranged that almost any matter likely to come up may be covered in a few words. In order to determine the genuineness of a telegram, a system of tests is used. Sometimes these codes consist of numbers and sometimes of words, and it is highly important that these codes and the keys to them be closely guarded. Messages received in cipher should never be translated on a telegram blank. Some agencies keep a record of telegrams received and sent in a book such as shown in Fig. 31. The translation is written in this book and checked by two persons and the messages filed. When these telegrams refer to payments, care should be taken to make the proper tests and check the message at the sending and receiving point. Usually the amounts in foreign messages are large and grave errors might be made if they are not properly checked by two responsible persons. A confirmation of the message should be sent by the first mail.

15. Blank Books and Stationery.—All the larger banks in Canada have stationery departments, which are often as large as a good-sized stationery store. Where banks have a considerable number of branches, a large amount of stationery is used, and as there is considerable rivalry among stationers and blank-book manufacturers for such large orders, these supplies are secured at minimum cost. Each branch is furnished with supplies from the stationery department, even if it is located at a great distance or in New York, where

TIME	DATE 190	FROM	Initials	Confirmed	TRANSLATION
12:45 p.m.	Oct 1	Halifax	E	Oct. 5	Notify & pay John Smith, 64 Stone Street, $120-

FIG. 31 (a)

TELEGRAMS DESPATCHED

Time	Date 191	Where Sent	Initials	Confirmed	TRANSLATION
10 AM	Oct 1	Toronto	E	10/1 E S	Return free my collection
					Bill Remitted $250. No 539
					Johnston

FIG. 81 (b)

Give Occupation and Post Office Address under every name appearing at least once in each Return. Particulars of Collateral Security and Insurance held, if any. Give sufficient particulars to make each transaction clear.

Date of Discount	No.	PROMISSOR	INDORSER	On Whose Account	Due	Amount	No. of Days	Rate	Discount	When Amount exceeds $500 report origin of transaction, source of repayment and other particulars
Add Balance per last Return						$				
Deduct since paid										
Balance per Balance Sheet						$				

Fig. 32 (a)

LOANS MATURED AT ______________________ BRANCH

Date	No.	Promissor	Indorser	Amount	How Disposed Of		
					Cash	Renewal	Charged P. D. B.

Fig. 32 (b)

Date	No.	On Whose Account	PROMISSOR	Other Indorsers	Address	RATING		Date	Term	Due Date	Amount	Initials	Days to Run	Rate	Interest	Proceeds	If Renewed State Amt. of Reduction
						Brads	Dun										

Fig. 38 (a)

BILLS MATURING AT ______________________ BRANCH

FROM ______________ TO ______________ 190__

Date	No.	On Whose Account	Promissor	Amount		Due Date of Bills returned unaccepted or prepaid		All Bills returned unaccepted or unpaid to be marked in [illegible]

Fig. 33 (b)

______ TO ______________ 190

ATE		[illegible]	[illegible]	Days to Run	Rate	Interest	Commission	Proceeds	If Renewed State [illegible] of Reduction

AT ______________ BRANCH, ______________ 190___

	NAME	ADDRESS	DEBIT BALANCE	CREDIT BALANCE	

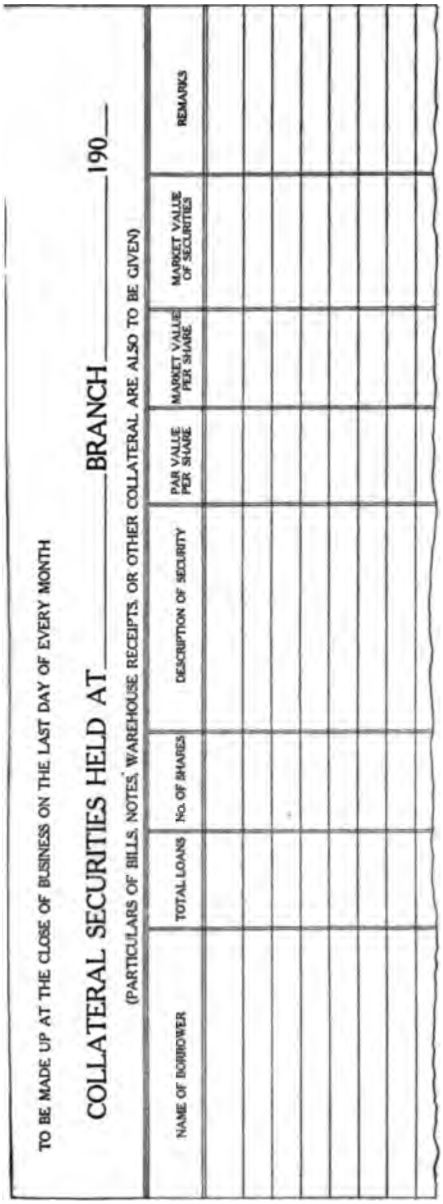
Fig. 36

LIABILITIES OF PARTIES AT ______ BRANCH, AS ON ______ 190__

TO INCLUDE ALL LOANS AND TRADE BILLS (CURRENT OR PAST DUE) AND OVERDRAFTS, ALSO STERLING PURCHASED, LETTERS OF CREDIT, ETC.
TRADE BILLS UNDER $100 IN LARGE ACCOUNTS MAY BE ENTERED COLLECTIVELY

INDIRECT		NAMES	OCCUPATION	RESIDENCE	RATINGS		DIRECT		TOTAL DIRECT TO AGREE WITH TOTAL ADVANCES AS PER BAL. SHEET	REMARKS
ON WHOSE ACCOUNT	AMOUNT				DUN & CO.	BRAD'S CO.	TRADE BILLS	LOANS AND OVERDRAFTS		
		Jones Bros. & Co.					15000	10000	25000	
			W. Teas	Toronto						
		Own name						10000		
		Smith & Co.					5000			
		Toronto Tea Co.					5000			
		Oke & Co.					5000			

FIG. 37


TO BE MADE UP AT THE CLOSE OF BUSINESS ON THE LAST DAY OF EVERY MONTH

COLLATERAL SECURITIES HELD AT ____________ BRANCH ____________ 190__

(PARTICULARS OF BILLS, NOTES, WAREHOUSE RECEIPTS OR OTHER COLLATERAL ARE ALSO TO BE GIVEN)

NAME OF BORROWER	TOTAL LOANS	No. OF SHARES	DESCRIPTION OF SECURITY	PAR VALUE PER SHARE	MARKET VALUE PER SHARE	MARKET VALUE OF SECURITIES	REMARKS

FIG. 38

the duty on articles coming from Canada is heavy. Twice a year, orders for supplies are sent in. Each manager is expected to exercise great care in ascertaining his requirements for 6 months so that it will not be necessary to repeat orders. The order for stationery is made up by the accountant or some member of the staff, and should be carefully revised by the manager before it is forwarded. The stationery of each branch is in the custody of the accountant, who makes a careful distribution of it. A sample book of forms is supplied to each office; and when any new form is prepared, a copy is sent to every branch to be filed in the book of specimens.

16. Instructions and Reports. Instructions to branches are usually

The Federal Bank of Canada

_______________________________ *Branch*

DAILY STATEMENT AT CLOSE OF BUSINESS

_______________________________ 190__

Federal Bank of Canada Notes				
do. in transit			$	
Specie				
Dominion Notes				
Notes and Cheques on other Banks				
Due by / to — other Banks, including Bank-Collection Account				
Net Cash Reserves			$	
Call Loans				
Other Current Loans				
Overdrafts				
Trade Bills and Trade Bills Remitted				
Past Due Bills				
Total Loans			$	
" " per last Statement				
Total Deposits				
" " per last Statement				

_______________________________ *Manager*

FIG. 39

sent out by circulars. These are handed to every member of the staff and each one places his initials on the margin to show that he has read it, after which it is placed on file. In order that the management may be kept closely advised of the condition of each branch, a system of returns has been adopted. These statements are intended to show the assets and liabilities of a branch and should be carefully prepared. The term "loans" used in the reports includes overdrafts, accommodation notes of all kinds, bills secured by collateral, notes or otherwise, and all bills that are not given by promissors for their own debts. The term "trade bills" includes all bills known as business paper, drafts for goods shipped, etc., and also all bills passed between parties not actually in business.

The following returns are sent to the general manager on the eighth, sixteenth, twenty-fourth and last day of each month: loan return, Fig. 32; trade bills discounted return, Fig. 33; trade bills remitted return, Fig. 34; and the following on the last day of the month: balance sheet, Fig. 35; current-account return, Fig. 36, liability return, Fig. 37; collateral security returns, Fig. 38. A daily statement, Fig. 39, is forwarded by the principal branches.

INDEX

NOTE.—All items in this index refer first to the section (see the Preface), and then to the page of the section. Thus, "Accepting banker, §24, p1," means that accepting banker will be found on page 1 of section 24.

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